

North Somerset Council

# Financial Report 2017 - 2018





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# Narrative Report



## What is in the Financial Report?

The Council publishes an annual Financial Report, incorporating the Statement of Accounts for the financial year, information about the governance of the Council and also details of the major influences on the Council's finances which affect how it manages its finances both now and in the future.

This report provides information about the Council's costs, its income streams, and its reserves and balances.

## Narrative Report from the Head of Finance and Property

The Narrative Report is the introductory statement to the Council's accounts. It has been structured in such a way to enable readers to understand North Somerset Council, its operating environment, and key issues which affect the Council, the delivery of its services, and its financial position.

### 1 An Overview of North Somerset

North Somerset is a unitary authority covering an area of around 37,500 hectares (145 square miles) and has a population of approximately 211,700 people. Recent forecasts show that this population is projected to grow significantly over the next two decades, from its current level to 241,000 by 2031, which is faster than the national average Source: ONS Estimates for 2015.



North Somerset is strategically placed close to the major cities of Bristol and Cardiff, and has excellent transport links, with the M5 and the mainline railway from Bristol to the South West running north to south through the district. It remains a popular visitor destination.

Almost 40 percent of North Somerset's residents live in rural communities or 'rural town hubs' such as Clevedon and Nailsea. Weston-super-Mare is already the third largest settlement in the West of England, with significant further expansion planned. The area has proportionately more elderly and young people than comparative unitary councils.

Overall North Somerset is prosperous, with below average unemployment and above average weekly earnings. However, there are big differences between areas and individuals: North Somerset is unusual in including areas in both the most and least deprived 1% in England, giving it the third widest range in deprivation scores between neighbourhoods in the country.

In recent years the Council has faced both economic and service pressures, although it continues to be an ambitious organisation which is recognised for providing good value services within a challenging financial environment.

During the year the Council has also continued to focus its efforts and attention on making North Somerset an even better place to live. By promoting growth and regeneration it is helping to deliver a thriving economy, which will help people, businesses and communities to flourish and generate income which the Council can use to sustain its vital services. The Council has a key role to play in driving a bright economic future, and as a result is currently investing in various strategic initiatives and commercial investments which will help drive economic growth, and deliver financial returns which will help to protect front line services to the public.

These ambitions, linked with the requirement to improve its financial self-reliance, has resulted in the Council giving greater focus upon locally generated resources from homes and businesses, which is an area which often sits outside of the traditional revenue budget processes.

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## Our Constitution

The Council has agreed a constitution which sets out how it operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution, which can be found at [Constitution](#), is reviewed on a regular basis, with the last update being in July 2017, when changes were made to the financial regulations section.

## Our Leadership and Workforce

Our 50 elected Councillors represent the people of North Somerset and set the overall policy of the Council. The Council has a Conservative party majority and has adopted the Leader and Executive model as its political management structure.

The Leader of the Council is responsible for the appointment of members of the Executive, the allocation of portfolios, and the delegation of executive functions. Executive Members are held to account by a system of scrutiny committees which provide local accountability, openness and involvement in decision-making, aiming to improve results for people in North Somerset.

The Audit Committee monitors the effectiveness of the Council's overall governance regime including its risk management arrangements, its systems of internal control, and financial strategy. It monitors the adequacy of the Council's Annual Governance Statement, which provides an overview of the Council's governance arrangements and significant risks, assessing the quality and timeliness of progress in identifying and implementing any required improvements.

Senior officers, led by our Chief Executive and our Directors and Statutory Officers, form our Corporate Management Team (CMT). CMT works closely with the executive members to ensure a corporate approach to delivering the Council's vision, aims and objectives. The role of CMT is to:

- guide the strategic direction of the whole organisation
- help the organisation translate its policies into practice
- support managers and staff in the development and delivery of services

The Council's Chief Executive and Director of Development & Environment have recently announced that they are leaving the Council. The Employment Committee has approved the appointment of an Interim CEO with the appropriate experience and expertise. She will commence in June 2018 for a period of up to 6 months.

In addition to providing the necessary corporate leadership of the organisation during a period of significant challenge and change, it is proposed that the Interim CEO will oversee a focused review of the Council's senior management structures to ensure the necessary leadership capacity is in place, and that roles and responsibilities of senior managers reflect the current and future demands on the organisation. Proposals will need to support a strong regional and local presence for the Council, and will ensure we are well placed to manage the increasing demands on social care, and the complex and ever-changing landscape in working with health partners.

The Council employs around 1,700 staff (or 1,300 full-time equivalents (FTEs)), who are organised into three Directorates – Corporate Services, Development & Environment, and People & Communities. We also employ a further 1,240 FTEs who work in our schools. Many staff, such as engineers, teachers, social workers, town planners, and accountants, are extremely experienced in their professional fields of expertise. The Council has developed a People Strategy to:

- make sure that the Council is a great place to work and that we can attract and retain the best people;
- develop a culture where everyone is encouraged to be flexible, innovative and have the confidence to challenge the status quo, implementing digital and other solutions to achieve more with less; and
- Encourage a learning culture where everyone is listened to, feels supported when issues arise, feels trusted and respected and does not experience or witness unacceptable behaviour.

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Key elements of the strategy include:

- organisational and cultural development
- people development
- recruitment, retention & pay; and
- wellbeing, recognition and reward

## The Council's Corporate Plan

One of the key strategic documents that frames the actions of the Council is its Corporate Plan. This is a working document that exists to help Councillors, staff and partners work together to deliver the vision for North Somerset. Its primary purpose is to set out our story of place and our priorities for North Somerset - what we are doing and why we are doing it. It can be found at [Corporate Plan](#).

The Plan shows that the Council, which is responsible for a range of services that impact on residents and the local area every day, has an ambitious vision for the area and for the organisation, how the Council is striving to ensure that the area continues to be **a great place to live where people, business and communities flourish**, and continues to provide **modern, efficient services, and a strong voice for North Somerset**.

It is recognised that flourishing communities become more resilient and are better placed to support themselves. Being a great place to live means that we can ensure three outcomes for the people of North Somerset:

- Prosperity and opportunity
- Health and well-being
- Quality places

We also have four ambitions for the Council as an organisation. These are 'enablers' which cut across all aspects of the Council's work and which we will need to have in place to deliver on our vision and ambitions for the area:

- a transformed council which is modern, innovative and accessible
- skilled and motivated staff who are passionate about making North Somerset even better
- excellence in resource management
- strong outcome-focused partnerships

## Our Services

The Council provides a wide range of statutory and discretionary services to the people of North Somerset and include the following core functions;

- Delivered by the People and Communities directorate:
  - Adult's and Children's Support and Safeguarding
  - Strategic Commissioning
  - Education Transformation, Housing and Strategy, Public Health
- Delivered by the Development and Environment directorate:
  - Highways and Transport
  - Streets and Open Spaces – including waste management and recycling
  - Development Management – including building control, planning, regeneration, strategic development
  - Economic Development
  - Operations – including libraries, sport and leisure, licensing, trading standards, food safety, protection
- Delivered by the Corporate Services directorate:
  - Elections, land charges, community safety, emergency planning
  - In-house internal support services – including legal, democratic services, finance, insurance, property and asset management, procurement, human resources, health and safety, transformation, marketing and communications
  - External support services provided via partners – including ICT, front office and customer services, business support, exchequer services

# Narrative Report



The infographic below gives a flavour of the scale and scope of the Council's responsibilities with just a few examples.



## 2 Financial Context

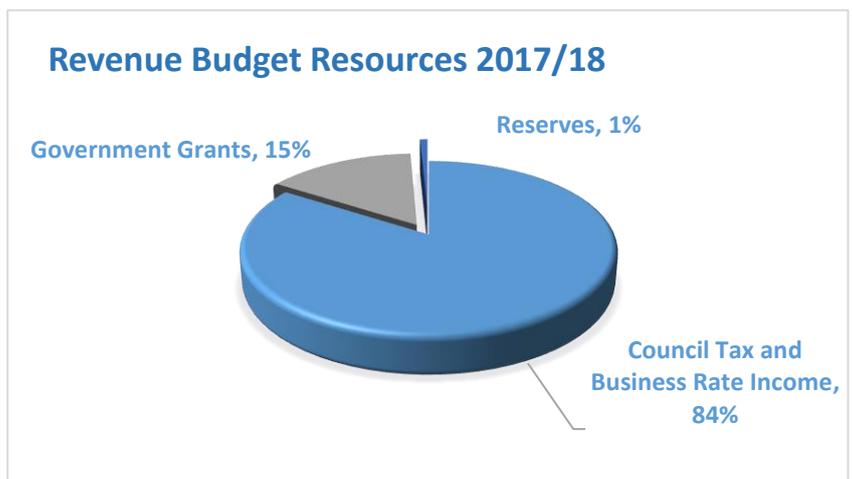
### Resources Overview

Local Authorities have experienced very significant reductions in Government funding over recent years and as a result the Council's budgets have reflected over £90 million in savings over this period to cope with reductions in funding, as well as increases in demand or costs. The largest of these spending pressures are linked to the costs of an aging population and its associated funding, as well as the rising numbers of children requiring social care support and safeguarding.

As can be seen in the chart, currently over 85% of funding is raised locally through council tax, business rates and reserves, with 15% being made up from government grant allocations.

This is a reduction compared to the previous financial year when government funding equated to over 18% of our total resources, although forecasts indicate that by 2020/21 the level of general grant is projected to fall to just 1% of funding for the Council. This makes achieving local economic growth even more important.

In setting the 2017/18 budget the Council approved an increase of 4.75% on its council tax levels in order to generate additional income, 3% of which related to the Adult Social Care levy. Council tax in North Somerset remains the second lowest in the South West, and collection rates for locally generated resources remain high, with both council tax and business rates achieving around 98%.



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A number of changes to the local government funding regime have already been made by the Government which will continue to have a significant impact on the Council's finances over time, and have included;

- the introduction of the business rate retention scheme in 2013,
- reductions in direct funding through the Revenue Support and New homes Bonus Grants,
- providing local authorities with the power to levy an increase on its council tax to fund social care,
- the introduction of new funding streams for adult social care through the Better, and Improved Better Care Fund, and
- the revaluation of business rates, together with changes to the frequency of future revaluations.

Further changes are also being planned by the Government have been brought into the Council's financial planning outlook and forecasts. They include;

- changes to the retention of business rates revenue to fund local services, which would increase from the current position of 49% retention and move towards local government retaining 75% of local receipts,
- other changes within business rates such as the centralisation of the risk and associated costs of appeals, changes to the levy, and the creation of a 'central' list for items such as ports or airports, and
- the national funding formula for schools.

The Council has developed a strong strategic approach to its revenue budget and financial planning considerations. The process is on-going and continuously updated. It will continue to focus upon both the internal and external financial challenges and opportunities faced in order to ensure that the Council is fully aware of its current and future financial position and has a series of strategies and mitigations available to respond when required.

## Risks and Opportunities

The Council has an embedded process to manage risks and assist the achievement of its objectives, alongside the national and local performance monitoring and targets. The Corporate Risk Register plays an integral role in the management of risk and is subject to regular review by both the Corporate Management Team and the Audit Committee.

Risks identified at the strategic level include uncertainties in relation to ongoing service provision, such as:

- safeguarding children and vulnerable adults,
- continuing the transformational activity to support customers and clients of the Council, and
- monitoring the availability, quality and affordability of key resources that the Council depends on to deliver services in the future, such as delivering sustainable solutions to the support our housing needs or providing economic growth within the local area.

Two of the key risks which may impact on future service provision include working with our Health partners and the West of England to ensure the best outcomes for all of our residents.

The Council currently has a number of significant on-going projects, covering a wide range of services, which can involve working in partnership with others, many of which require considerable levels of one-off and recurrent funding from the Council. There is an inherent risk of revenue reversion as the Council embarks upon more substantial and ambitious transport and infrastructure projects through leveraging in external grants and other funding.

The ongoing risk management and monitoring processes enable the Council to identify and develop a series of mitigation measures to offset financial risk and include actions such as; mapping the social care needs of service users during their transition from childrens' to adults' services in order to improve the accuracy of future spend forecasts; and the introduction of cost and volume based budgeting for key demand led services in adult and childrens' social care services and also waste management, in order to understand what levels the approved budget will fund and what the financial implications are for growth beyond these levels.

Other risk mitigation measures within the Council directly impact on services and their users, and include initiatives such as increasing the availability of Disabled Facilities Grants to allow more elderly residents to stay in their homes, and the

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introduction of a Social Impact Bond which involves working with families on the edge of care to prevent them coming into care in the future.

Material risks, including those to partnerships and projects, are reviewed by scrutiny panels or included within the Annual Governance Statement where necessary.

Whilst there are no significant issues raised in the 2017/18 Annual Governance Statement, the reducing level of public sector funding, alongside the increasing demand on the Council's services, remains the major risk that we face.

## Medium term financial strategy, and resource allocation

The Medium Term Financial Plan (MTFP) is the core strategic document which supports the delivery of the Council's Corporate Plan objectives. Our budget setting and medium term financial planning gives regard to delivering the outcomes of our corporate plan, protecting and enhancing front line services whilst generating much needed local income through our Growth agenda.

The Council's financial strategy focusses on delivering local, sustainable growth, which will generate additional income to the Council in the form of retained Business Rates, Council Tax, New Homes Bonus (NHB) and commercial and investment property income.

The Council uses a rolling five-year budget setting and planning process, which fully integrates the financial impacts of both revenue and capital planning. The inherent assumption within the MTFP is that spending departments will absorb the increased cost of service demand and inflation through proactive management action and efficiencies. Exceptionally, where managers are unable to sustain such cost pressures, a clear business case must be approved through CMT for growth in budgets to be incorporated into future year funding allocations.

The largest growth allocations included within the 2018/19 budget relate to Adult and Children's Social Care. These two budget lines amount to in excess of 60% of the Council's net revenue budget. As these are 'demand led' services, the Council has adopted a 'cost and volume' approach to setting their budget, in order to better forecast and monitor activity and unit costs.

As a result of the MTFP process, the Council's has achieved over £90 million in savings since 2010 to cope with reductions in funding, and increases in demand or costs. This process is on-going. The Council's current financial plan covers until 2021/22, and is continuously reviewed as the Council develops a stronger understanding of the financial challenges it faces.

## **3 Performance of the Council**

### Non-financial performance monitoring

The Council gathers information and data from across the organisation to ensure that it is effectively and efficiently monitoring its own performance in an open and transparent manner, with such activities being undertaken by the Business Intelligence team. They utilise the Performance Management Framework which brings together both national and local statistics and compares these to inputs, activities and outputs within the Council.

The services we provide and perform have an impact on every resident and business in the area. We have a clear and comprehensive mechanism for business planning. Our business planning process sets out how we are going to achieve the ambitions and outcomes we have identified within the Corporate Plan and what resources and skills each directorate, service and team need to do this.

The key components of the business planning process are illustrated and ensure that all staff are clear what their priorities are and how they are helping to contribute to the Corporate Plan, the Transformation Programme and also to achieve any savings within the Medium Term Financial Plan.

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The way that the Council manages its business and delivers services to residents is changing rapidly. Our population is growing fast and people are living longer, bringing increased demand for services. Technological change is also having a huge impact on everything from how we work to how we socialise. Achieving our vision for North Somerset requires a new relationship with residents, striking the right balance between providing public services and enabling people to do things for themselves. The Council's Transformation Programme addresses these challenges and is a comprehensive programme of change. It has helped us deliver significant savings in the last few years, enabling us to prioritise resources for frontline services. We have promoted regeneration and economic growth and improved the way we work within the Council and with our partners. The Programme continues to embrace change and to ensure that the the Council remains responsive to new opportunities.

Our Transformation programme has four themes:

- **Driving Growth:** encouraging local economic growth,
- **Digital First:** making the most of new technologies,
- **One Council:** operating as a single streamlined organisation; and
- **Delivering Together:** working with partners to share services and deliver joint objectives

The most recent addition to the Programme is the “Transforming Adult Support and Safeguarding” programme, which includes:

- redesigning our “front door” and pathways helping people to help themselves whenever possible,
- making the most of assistive technology to support people to be as independent as possible,
- scaling up extra-care housing, housing with support, shared lives and other alternatives to residential and nursing,
- overhauling our approach to reviews so that whatever we provide continues only for as long as needed and is effective in increasing independence.

## Performance Outputs

One important way in which we measure and monitor outputs is by reference to activity and unit cost data. This is particularly relevant in the waste service, as well as adults' and children's social care, all of which make up a significant proportion of the Council's overall spend. The 2017/18 out-turn data indicates summary information in these areas.

### Waste Disposal and Processing

The table below shows the weight and unit cost of waste that was sent to landfill or for other processing in 2017/18. We set ambitious targets to reduce the volume of waste collected over the year and, with targeted action, we managed to exceed these levels and reduce landfill waste.

	Number of Tonnes	Weighted Average Cost per tonne £	Gross Expenditure £
<b>By Waste Type</b>			
Residual Waste - Landfill	23,754	£107.25	2,547,617
Residual Waste - Treatment	19,742	£101.73	2,008,299
Food Waste - Treatment	6,495	£60.65	393,922
Garden Waste - Treatment	18,353	£21.15	388,166
<b>Est. Gross Spend on Waste Disposal 2017/18</b>	<b>68,344</b>	<b>£78.10</b>	<b>5,338,004</b>

### Adult Social Care

The table below illustrates the number of adult social care clients supported during 2017/18 together with the average weekly unit cost. The expenditure can usefully either be split by the type of care received or in accordance with the clients' primary support reason. The information is shown gross, before any client contributions.

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	Clients	Average Weekly Unit Cost £	Gross Expenditure £
<u>By Care Type</u>			
Residential	660	£796.88	27,422,493
Nursing	305	£688.76	10,953,076
Supported Living	347	£579.27	10,480,412
Direct Payment	343	£429.05	7,673,064
Homecare	674	£162.99	5,727,852
Day Care	188	£196.58	1,926,937
Extra Care	118	£205.60	1,264,971
Shared Lives	40	£484.96	1,011,431
Short Term Care	162	£399.52	3,374,588
<b>Est. Gross Spend on Adult Social Care Packages 2017/18</b>	<b>2,837</b>	<b>£472.11</b>	<b>69,834,824</b>
<u>By Primary Support Reason</u>			
Learning Disability	701	£712.15	26,029,215
Physical Support	1,527	£348.32	27,732,645
Mental Health	281	£462.51	6,776,426
Memory & Cognition	328	£543.60	9,296,538
<b>Est. Gross Spend on Adult Social Care Packages 2017/18</b>	<b>2,837</b>	<b>£472.11</b>	<b>69,834,824</b>

## Looked After Children

The table below illustrates the number of children's placements made during the year, together with the average annual unit cost of each type of placement.

	Average Number of Placements	Average Annual Unit Cost £	Net Expenditure £
<u>By Care Type</u>			
In-house Foster Placements	96	£18,917.03	1,816,035
Independent Foster Agency Placements	61	£44,757.50	2,710,514
Residential Placements	16	£188,884.92	3,069,380
Secure Accommodation	1	£359,127.56	456,092
Parent and Baby	4	£145,287.06	539,015
Supported Living	4	£122,513.88	520,684
Kinship	31	£13,613.10	422,006
Special Guardianship	69	£7,758.06	535,306
<b>Est. Net Spend on Children's Social Care Packages 2017/18</b>	<b>282</b>	<b>£35,705.79</b>	<b>10,069,032</b>

## Performance Outputs

Each quarter the Corporate Management Team receives a report on a wide range of indicators to ensure that the priorities of the Council are being met, services are being delivered to customers, income targets and cost reductions are being achieved, and to identify issues which may require further action. A summary of these reports are considered by the Executive and Policy & Scrutiny Panels for further review – the Quarter 4 out-turn report can be found on the Council's website. [Performance Report](#)

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Some of the key performance indicators across the range of activities are shown below.

Measure	2017/18 Performance Output
<b>Adult Support and Safeguarding</b>	
People in permanent care home placements age 18-64	208
People in permanent care home placements age 65+	764
Proportion of adults with learning disabilities who live in their own home or with their family	74.16%
Proportion of Adults in contact with secondary Mental Health services living independently	75.54%
Proportion of Adults with Learning Disabilities in paid employment	11.36%
Proportion of Adults in contact with secondary mental health services who are in paid employment	12.79%
<b>Children's Support and Safeguarding</b>	
Early help interventions	1,131 early help episodes
Children in Need	532 children in need
Children on a Child Protection Plan	137 children on a plan
Children who are Looked After	237 children looked after
Percentage of Yr12 and 13 young people not in education, employment or training or NK	5.34%
Overweight children in reception	23.90%
KS2: Attainment (combined Reading, Writing and Maths)	59.00%
Overweight children in year six	27.90%
KS1: Attainment (all)	Reading: 79%; Writing 72%, Maths 78%
<b>Economy</b>	
Economically active people	83.10%
Net business rates payable in North Somerset	£63.3m
Vacant retail premises in North Somerset town centres	12.07%
The number of business start-ups supported by North Somerset Enterprise Agency	89
The number of apprentices employed by the council	26
Households in North Somerset who have access to Superfast broadband	90.00%
<b>Housing</b>	
The percentage of homeless households in priority need who are prevented from being homeless	85%
Total No. of homes where a significant hazard was removed / repaired through local authority intervention per year	152
Percentage of young people who present as homeless and are prevented from needing to enter long term local authority care	100%
The number of Houses of Multiple Occupancy improved	100 HMOs improved
Number of housing advice interviews	4,281
Number of new housing applications received	1,712
<b>Transport and Waste</b>	
The percentage of the principal road network where maintenance should be considered	1.10%
The percentage of the non-principal road network where maintenance should be considered	4.70%
Residual waste collected	448.35 kg per household
Household waste recycled	59.96%

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In addition our financial objectives and measures are laid out in the Medium Term Financial Plan, and our performance against these for 2017/18 is as follows.

Measure	2017/18 Target	2017/18 Performance
Net revenue budget out-turn	Within 1.5% of budget	Actual out-turn was an underspend of £960k which equates to 0.6% of the net revenue budget
Working balance	Minimum of 5% of net revenue budget	Actual working balance is £8.64m which equates to 5.4% of the net revenue budget
Council Tax increases	Within government guidelines	The overall increase of 4.75% was within the government guidelines and there was no requirement for a referendum
Collection rates:-		
· Council Tax	· 97.3%	· 97.96%
· Business Rates	· 98.2%	· 99.02%
· General Debtors	· 85.0%	· 95.09%
Creditor payments:-		
· General creditors	· 85% within 30 days	· 99.08%
· SMEs	· 85% within 10 days	· 68.92%
Capital investment programme	5-year rolling programme of £150m	The capital programme is forecast to exceed the minimum investment target and is estimated to be in the region of £250m over the 5-year period.
Council Tax base growth	As per forecast	The tax base grew by 2.54% compared with a planned 2.11%
Net business rates growth	As per forecast	Planned growth was £974k and actual growth was £834k. This difference largely relates to lower than planned growth at Bristol Airport
Draw down of funding for West of England projects	In accordance with MTFP	The council has maximised allocations for external funding where possible and draw downs have been approved by WECA
Contract spend	Significant proportion of contract spend to be within North Somerset	74.63% (based on Apr 17 to Jan 18 spend - full year not yet available)
Investment and borrowing	Within limits prescribed in the Treasury Management policy	All transactions were within the approved borrowing and investments limits and ceilings
Return on new investments	· 0.65%	· 0.88%
Borrowing	Not to exceed net revenue budget	Actual borrowing £123.3m which is below net revenue budget of £159.2m
Revenue costs of borrowing	Not to exceed 10% of the net revenue budget	Actual borrowing costs £9.7m which equates to 6.1% of the net revenue budget
MTFP data	Supported by robust unit cost and activity data	Good progress - adult social care, children's placements and waste disposal expenditure is supported by activity and unit cost data.

## Monitoring the revenue budget in 2017/18

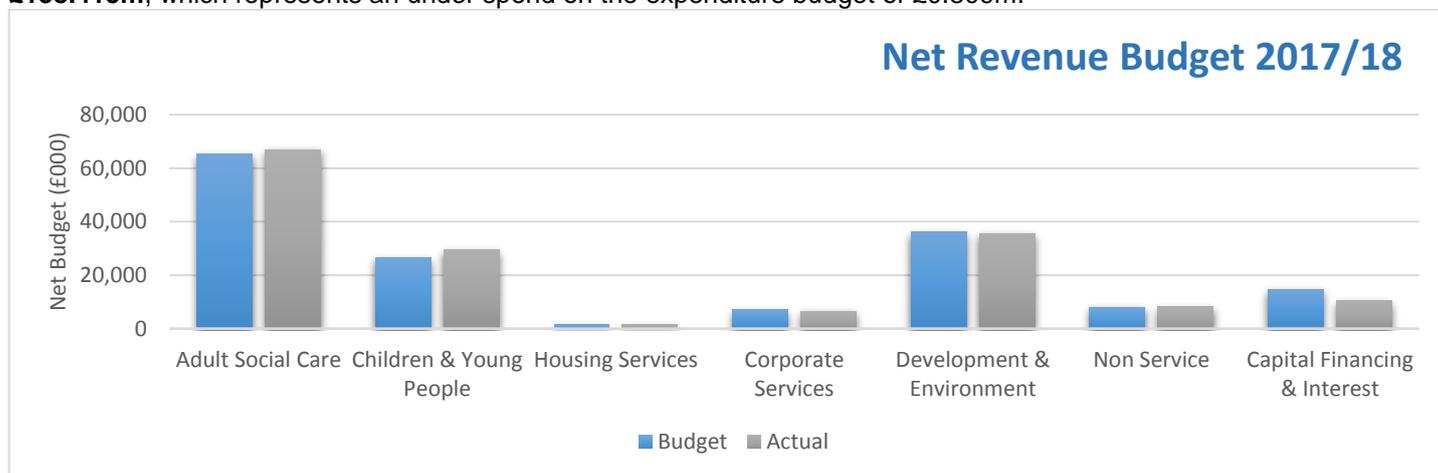
In accordance with good financial governance all aspects of the Council's operational revenue budget are monitored throughout the financial year, with reports being considered by the Council's Executive on a regular basis. All such reports can be found on the Council's website. [North Somerset Council](http://www.northsomerset.gov.uk).

The monitoring focuses attention on the forecast expenditure and income compared to the budgeted approvals set for the year and also the consequential impact on the Council's reserves and balances should any surpluses or deficits arise. The

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Council's net expenditure budget was £159.224m and the out-turn position depicted below reflects a net expenditure of **£158.415m**, which represents an under spend on the expenditure budget of £0.809m.



As in previous years, it can be seen that the Council continued to face cost pressures within its social care budgets for both Adults and Children, largely as a result of increased demand pressures for placements compared to the budgetary provision for the year. Other adverse pressures within the People and Communities directorate were reported, which included Deprivation of Liberty, Safeguarding and children's respite breaks and staffing costs. As a result the directorate overspent its budget allocation by £4.5m.

The Council has increased the scrutiny of its monitoring of social care activity, and introduced an Adult Social Care Transformation programme to enable all aspects of care in the community provision to be reviewed and updated where necessary. Although demand pressures are once again a feature within both the adult and children's budget monitoring reports, the results of the cost and volume analysis have indicated that whilst client numbers remain high, the average costs for children's residential placements are slightly lower than in previous years. The cost and volume modelling approach has formed the basis of calculating the resource requirements within the budget for future years and, as a result, significant additional resources have been allocated to both adult and children's social care.

Others services within the Council introduced mitigating plans in order to generate underspends within the revenue budget to alleviate pressures. Another area of notable movement in the year was a £2.6m reduction in the amount charged to the revenue budget and set aside as a provision for the repayment of debt. In the previous financial year the Council approved a decision to change the way it calculates the charge in order to introduce a more prudent approach and repay the outstanding debt evenly over a shorter period of time. Towards the end of the 2017/18 financial year the Council took a decision to back-date the revised policy to 2008/09, with the resulting benefit being spread over 8 years.

## Where does the money come from?

The Council's net budget is funded from two main sources, local taxation and government grants. Total income for the year was **£159.375m**, which is £0.151m more income than budgeted, largely as a result of increased funding from the government for small businesses or empty properties.

Added to the £0.809m under spend on the revenue expenditure budget noted above, the Council will transfer £0.960m into its General Fund revenue reserve, increasing the balance to £8.640m.

The in-year budget monitoring reports do not include the statutory or technical accounting adjustments required for inclusion within the Comprehensive Income and Expenditure Statement, which provides an overall summary of the Council's income and expenditure at the end of the financial year in accordance with proper accounting practice. However they do include movements transferred to or from the Council's reserves.

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## Reconciliation of Budget Monitoring to Expenditure and Funding Analysis

2017/2018 REPORTED OUT-TURN POSITION					Note	2017/2018 EXPENDITURE & FUNDING ANALYSIS		
Net Out-turn Position Reported to Members £000	Transfers (To) / From Reserves £000	Reallocation of Overheads, Precepts & Levies £000	Net Expenditure excl Reserves £000			Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000
66,884	(1,334)	569	<b>66,119</b>	People & Communities		66,119	655	<b>66,774</b>
1,391	(281)	58	<b>1,168</b>	Adult Social Care		1,168	142	<b>1,310</b>
29,488	61	569	<b>30,118</b>	Housing Services		30,118	383	<b>30,501</b>
0	(149)	58	<b>(91)</b>	Children & Young People		(91)	64	<b>(27)</b>
0	1,902	(126)	<b>1,776</b>	Public Health		1,776	15,046	<b>16,822</b>
97,763	199	1,128	<b>99,090</b>	Schools Budgets & Grants		99,090	16,290	<b>115,380</b>
6,560	(161)	(1,404)	<b>4,995</b>	Corporate Services		4,995	(13,694)	<b>(8,699)</b>
35,550	1,298	276	<b>37,124</b>	Development & Environment		37,124	16,599	<b>53,723</b>
6,768	(1,120)	(4,813)	<b>835</b>	Non Service		835	(114)	<b>721</b>
10,413	(702)	0	<b>9,711</b>	Capital Financing & Interest		0	0	<b>0</b>
1,361	(1,361)	0	<b>0</b>	Contribution into Financial Risk Reserve		0	0	<b>0</b>
<b>158,415</b>	<b>(1,847)</b>	<b>(4,813)</b>	<b>151,755</b>	<b>Net Cost of Services</b>	<b>CIES</b>	<b>142,044</b>	<b>19,081</b>	<b>161,125</b>
(159,375)	1,191	4,813	<b>(153,371)</b>	Other Income and Expenditure		(143,660)	34,735	<b>(108,925)</b>
960	(960)	0	<b>0</b>	Contribution into General Revenue Reserves		0	0	<b>0</b>
<b>0</b>	<b>(1,616)</b>	<b>0</b>	<b>(1,616)</b>	<b>(Surplus) / Deficit on Provision of Services</b>	<b>CIES</b>	<b>(1,616)</b>	<b>53,816</b>	<b>52,200</b>

# Narrative Report



## Looking ahead with the medium term financial planning

For 2018/19 the Council received additional grant income towards funding the cost of adult social care, but still had to make total savings of over £9.8m, due to issues such as reduced government funding, inflation (contractual and employee), as well as increases in demand for adult and children's social care.

As Government funding falls, income generation becomes a key priority area. The Council plans to maximise its current sources of income, identify new income streams and actively pursue all opportunities to increase the resources available. This includes actively seeking to acquire investment properties with a view to generating a surplus over and above the borrowing costs which can be put into the budget as a way of funding Council services. A strong emphasis within the Council has once again been placed on maximising income from Council Tax and Business Rates, with work continuing to encourage new house building and to accelerate and generate new business growth to align with the regeneration ambitions of the Council.

The Council's latest medium-term financial modelling, shown in the table below, which excludes town and parish council precepts, has been updated to reflect the provisional four-year Funding Settlement announced in December 2017 for the years 2018/19 to 2021/22, as well as anticipated cost increases for inflation, superannuation and service demands.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
<b>Projected Revenue Resources</b>					
Government Grants	23,666	16,758	9,832	7,548	6,017
Council Tax & Business Rates	129,514	134,877	138,924	143,390	147,802
Other	1,708	1,624	0	0	0
<b>Total Resources</b>	<b>154,888</b>	<b>153,259</b>	<b>148,756</b>	<b>150,938</b>	<b>153,819</b>
<b>Net Revenue Budget</b>					
Base Budget	151,882	154,888	153,259	148,759	150,938
Growth items	13,407	13,055	4,077	5,300	4,760
Grant Income and Savings Proposals	(10,401)	(14,684)	(3,890)	(1,960)	(330)
Savings Requirement	0	0	(4,690)	(1,161)	(1,549)
<b>Revised Base Budget</b>	<b>154,888</b>	<b>153,259</b>	<b>148,756</b>	<b>150,938</b>	<b>153,819</b>

The budget short-fall shown above is £7.4m, with the largest savings target projected to be in 2019/20, although it should be noted that estimates for later years may not be fully quantified because service pressures and new burdens from the government are not sufficiently clear. The Council's financial planning process has already begun to update these values bringing in the latest information available and we will continue to update and publish such forecasts on a rolling basis.

## Monitoring the capital budget in 2017/18

Capital expenditure is amounts paid to acquire or improve assets such as land or buildings, vehicles, equipment and roads which are expected to have a life or benefit of more than one year. During the year the Council spent over £78m on capital projects across all of its service areas including £22m on schemes delivered by Development and Environment and £10m on schools and educational facilities. The total expenditure also includes the Council's first commercial investment acquisition, the North Worle District Centre, which is anticipated to generate a 6% return. Capital expenditure is funded by receipts from the sale of assets, special reserves, grants and contributions or borrowing.

## Looking ahead with the five-year capital programme

In the same way that the Council plans and prepares for its revenue budget, we also have similar plans for our capital programme which looks ahead on a five year horizon. The programme is ambitious and seeks to deliver the needs of our growing communities, but also to deliver real transformation change within the environment we live and work in.

# Narrative Report



## Balance Sheet

Despite some areas within the revenue budget resulting in overspends, and the growing budget pressures likely to be faced in the future, the Council maintains a strong Balance Sheet with a net worth of over £56 million.

	2016/17 £000	2017/18 £000
Non-current assets	423,722	425,723
Net current assets - debtors, stock and cash less short-term creditors and liabilities	48,880	30,015
Long-term liabilities and provisions	(401,417)	(399,112)
<b>Net Assets</b>	<b>71,185</b>	<b>56,626</b>
<u>Represented by:</u>		
Usable Reserves	(52,500)	(51,576)
Unusable Reserves	(18,685)	(5,050)
<b>Total Reserves</b>	<b>(71,185)</b>	<b>(56,626)</b>

The total reserves held by the Council at the end of the year were £56.626m, which is a reduction of £14.559m compared to the amount held at the end of the previous year. The majority of the decrease relates to movements in 'unusable' reserves, which are technical adjustment accounts operated by the Council rather than cash monies available to spend, including the deficit on the Pensions Reserve.

During the year the Council has actively reviewed all useable reserves held to ensure that all such monies will be spent on the Council's most important priorities. The Council has separated its earmarked reserves into sums allocated to directorate priorities from those sums managed on a corporate basis to cover both financial risk and strategic priorities.

Held within the useable reserve total is the Council's General Fund balance, which is the reserve held to cover immediate or unplanned financial risks. At the year-end the balance was £8.640m which equates to approximately 5% of the net revenue budget, a level deemed prudent by the Section 151 Officer.

## Collection Fund

The Collection Fund Adjustment Account is the reserve established to account for the Council's share of any surpluses or deficits arising from the in-year performance of its council tax and business rates income and expenditure. It is classed as an 'unusable' reserve within the balance sheet as the funds cannot be accessed at the end of the year but will be reversed into the General Fund in a subsequent financial period.

At the end of the year the account shows a deficit of £0.046m in respect of the Council's ongoing council tax and business rate activities, due to the both the prior year surplus and the taxbase being lower than estimated, and an increase in provisions required at the year-end.

Preceptors are able to utilise any such surplus balances, or recognise any deficit balances within their funding and incorporate them within their future year budget strategies. In February 2018 the Executive approved the inclusion of £0.528m deficit within its budget for 2018/19, as this was the anticipated position forecast at that time. There is an improvement in the actual out-turn performance compared to this forecast and will therefore be reflected in the next financial planning update.

# Narrative Report



## Treasury management, borrowing and cash-flows

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Head of Finance & Property to make decisions on the management of the Council's debt and investment of surplus funds. The Strategy for 2017/18 can be found at [Treasury Management Strategy](#).

The current investment strategy is to continue to diversify into more secure and/or higher yielding asset, classes and to move away from the increasing risk and low returns gained from short term unsecured bank and building society investments. In 2017/18 the Council invested monies in multi asset funds which provide higher yields than traditional cash based investment, although these are classified as longer-term investments, a change evidenced in the Balance Sheet.

In addition we have reduced the amount of short-term investments held, at a time when investment returns remain at an all-time low. The cash released from these investments was used to partially fund the purchase of the Council's first commercial property investment, thereby reducing the need to externally borrow for acquisition costs, and increasing the return within the revenue budget.

Whilst an element of the Council's borrowing requirement within the capital programme was financed internally by utilising the short-term cash balances, a need for further external borrowing for the new commercial investment property remained. As a result, new long term borrowing was taken with the Public Works Loan Board to finance this expenditure. The loans were spread over a number of years in order to balance the maturity profile of debt held. With the continuing environment of low interest rates, we will continue to manage cash balances whilst considering the need to incur further external borrowing over the next couple of years.

## Pension assets and liabilities

The deficit recorded within the accounts relating to all pension funds is £232.725m as at 31 March 2018, which is a net increase of £31.670m from the opening balance deficit of £264.395m. This balance reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund.

## Accounting changes in the year and looking ahead

There are relatively few changes to the format and content of this year's financial statements over the prior year. They include:

- changes to this Narrative Report, which introduces key reporting principles based on the work carried out by the International Integrated Reporting Council (IIRC) on the Integrated Report,
- entries in the 'Analysis by nature' note to the Comprehensive Income and Expenditure Statement have been re-analysed to better reflect the grant income detailed in other notes to the accounts, and
- comparators to Note 18.1, senior officers remuneration, have been re-stated to reflect a change in the Council's interpretation of Code guidance as to whether election payments form part of employees remuneration from the Council.

Note 5 of the financial statements details the impact of accounting standards which have not yet adopted into the Code of Local Government accounting on future year's accounts. The implementation of the accounting standards expected in 2018/19 is not expected to materially impact on the Council's accounts.

## **4 Summary Position**

Despite the challenging economic outlook, the Council's financial and operational performance levels continued to be maintained in 2017/18. The favourable revenue out-turn position enabled the Council to transfer £1.361m into its financial risk reserve and a further £0.960m into its General Fund revenue reserve, both of which are measures which will bring further financial stability in future years. Clearly the decision to back-date and apply the revised minimum revenue policy over previous years has brought a financial benefit in year. However, the Council has worked hard to reduce the significant overspends projected in previous monitoring reports throughout the year. The overall out-turn position is reflective of the

# Narrative Report



strong mitigating actions taken within adult social care, and the other strategic corrective actions driven by the Corporate Management Team across the service areas.

The Council's approach to financial planning over the medium term includes a focus on investment and income generation. It strengthens the position of the Council by developing financial resilience through less exposure to reductions in government funding.

In 2017/18, the Council has faced and dealt successfully with significant external change, and it is anticipated that this trend will continue, and indeed accelerate, as the government initiatives and changes such as rates retention, funding formulae or the adult social care funding agendas take shape. The departure of both the Chief Executive and the Director of Development and Environment from the Council will also bring a great deal of change, as will the review of the senior officer staffing structure which will be led by the newly appointed Interim Chief Executive Officer. That being said, the Council is well placed to adapt to the challenges and to take advantage of the opportunities offered as it moves into 2018/19.

Updates on the Council's finances are provided throughout the year in the free magazine North Somerset Life. If you have any questions or would like more information please call our Financial Management team on 01934 634619. You can obtain additional copies of this report by writing to: Melanie Watts, Head of Corporate Accountancy, North Somerset Council, Town Hall, Walliscote Grove Road, Weston-Super-Mare, BS23 1UJ.

**Malcolm Coe**  
**Head of Finance & Property**  
**May 2018**

# Narrative Report



## Explanation of the Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. It comprises core and supplementary statements, together with disclosure notes. The format of the Accounts follows best practice as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"), and incorporates the requirements of International Financial Reporting Standards.

The Code is updated annually to reflect new or updated accounting standards. There are no significant changes to the Code in the current year which impact on the core financial statements. The Core Statements are:

**Movement in Reserves Statement (MIRS)** - shows the movement to or from the Council's reserves during the year. Reserves are categorised as "usable" (these can be used to fund services or reduce local taxation) or "unusable" (these relate to technical accounting adjustments and cannot be used to fund services). Unusable reserves are in the main used to account for accounting items such as depreciation and impairment, which do not impact on the council tax payer, or to hold unrealised gains and losses, where the actual gain or loss will only become available once another event has occurred. For example, the Revaluation Reserve will only become available if the related asset is sold and the full value of the asset realised.

**Comprehensive Income and Expenditure Statement (CIES)** - shows the cost of providing Council services during the year, adjusted to reflect required accounting transactions such as depreciation and impairment, in accordance with proper accounting practice, rather than the amount funded from council tax and government grants. The Expenditure and Funding Analysis (Note 10) compares the CIES with income and expenditure taken into account when setting the budget and Council Tax, adjusting for certain amounts which are disregarded by statute. An analysis by nature, often referred to as a subjective analysis, of the CIES is given in Note 16.

**Balance Sheet** - gives a snapshot of the Council's assets and liabilities at the year-end. These are matched by the Council's reserves, which are categorised as either Usable or Unusable (as explained above).

**Cash Flow Statement** - shows how the Council generates and uses cash and cash equivalents (assets which are readily convertible into cash) during the year, and explains the reasons for the changes in the year.

The Supplementary Financial Statements are:

**Collection Fund** - shows the billing authority transactions relating to the collection of Council Tax and Business Rates, and the relevant distributions to precepting bodies. North Somerset's Council Tax precepting bodies are the Council itself, the Avon and Somerset Police and Crime Commissioner, and the Avon Fire and Rescue Service. The Business Rate precepting bodies are the Council, Central Government and Avon Fire and Rescue Service. Each year the Council calculates the surplus or deficit on the Collection Fund, and this is distributed proportionately between the relevant precepting bodies.

The **Notes** to the financial statements provide more detail about the Council's accounting policies and individual transactions. The **Annual Governance Statement** sets out the governance structures of the Council and its key internal controls. The **Accounting Policies** set out the policies that have been followed in preparing the accounts, in line with Code requirements.

A **Glossary** of key terms and abbreviations can be found at the end of this publication.

The Council's Accounts are audited by Grant Thornton UK LLP, however their review does not cover any external documents or statements included as electronic hyper-links.



# Statement of Responsibilities



## North Somerset Council's Responsibilities

North Somerset Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance and Property.
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- approve the Statement of Accounts.

## The Head of Finance and Property's Responsibilities

The Head of Finance and Property is responsible for the preparation of the Council's Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") which requires the Council to certify a 'true and fair view' of the financial position of the authority and its income and expenditure for the year ended 31 March 2018.

In preparing this Statement of Accounts, the Head of Finance and Property has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Head of Finance and Property has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

## CERTIFICATE

I hereby certify that the following Statement of Accounts gives a true and fair view of the financial position of North Somerset Council as at 31 March 2018 and hereby authorise the issue of the accounts.

**Malcolm Coe CPFA**  
Head of Finance and Property  
26 July 2018

**Cllr Mrs Blatchford**  
Chairman of Audit Committee  
26 July 2018



# Independent Auditor's Report and Opinion



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH SOMERSET COUNCIL

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of North Somerset Council (the 'Authority') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance and Property's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and Property has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Head of Finance and Property is responsible for the other information. The other information comprises the information included in the Financial Report 2017-18 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Report 2017-18 for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent Auditor's Report and Opinion



## Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Head of Finance and Property and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 21, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Property. The Head of Finance and Property is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Head of Finance and Property determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Property is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

*Barrie Morris*

Barrie Morris - for and on behalf of Grant Thornton UK LLP, Appointed Auditor - 2 Glass Wharf, Temple Quay, Bristol, BS2 0EL - 27 July 2018



# Primary Financial Statements



# Movement in Reserves Statement



	Note	Usable Reserves									Unusable Reserves							TOTAL RESERVES £000		
		General Fund Balance £000	LMS School Balances £000	Dedicated Schools Grant £000	Other Schools Balances £000	Earmarked Revenue Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Revaluation		Adjustment Accounts						Total	
											Revaluation Reserve £000	Available-for-Sale Financial Instruments Reserve £000	Capital Adjustment Account £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Pensions Reserve £000	Accumulated Absences £000		Deferred Capital Receipts £000	Total Unusable Reserves £000
Balance at 31 March 2017		(7,680)	(3,190)	1,763	(638)	(27,167)	(2,008)	(11,934)	(1,646)	(52,500)	(99,496)	398	(184,465)	499	(2,038)	264,396	2,136	(114)	(18,684)	(71,184)
Total Comprehensive Income and Expenditure	CIES	52,200	0	0	0	0	0	0	0	52,200	(13,624)	(94)	0	0	0	(23,924)	0	0	(37,642)	14,558
Adjustments between accounting basis & funding basis under regulations	7	(53,816)	0	0	0	0	0	2,336	204	(51,276)	29,988	0	27,765	(31)	2,083	(7,746)	(802)	19	51,276	0
Transfers between Usable Reserves	8.1	656	1,854	(343)	192	(1,944)	(415)	0	0	0	0	0	0	0	0	0	0	0	0	0
(Increase) / Decrease in 2017/18	8/9	(960)	1,854	(343)	192	(1,944)	(415)	2,336	204	924	16,364	(94)	27,765	(31)	2,083	(31,670)	(802)	19	13,634	14,558
Balance at 31 March 2018 - carried forward	8/9	(8,640)	(1,336)	1,420	(446)	(29,111)	(2,423)	(9,598)	(1,442)	(51,576)	(83,132)	304	(156,700)	468	45	232,726	1,334	(95)	(5,050)	(56,626)

# Movement in Reserves Statement



	Note	Usable Reserves									Unusable Reserves							TOTAL RESERVES £000		
		General Fund Balance £000	LMS School Balances £000	Dedicated Schools Grant £000	Other Schools Balances £000	Earmarked Revenue Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Revaluation		Adjustment Accounts						Total	
											Revaluation Reserve £000	Available-for-Sale Financial Instruments Reserve £000	Pensions Reserve £000	Capital Adjustment Account £000	Deferred Capital Receipts £000	Financial Instruments Adjustment Account £000	Accumulated Absences £000		Collection Fund Adjustment Account £000	Total Unusable Reserves £000
Balance at 31 March 2016		(7,680)	(5,219)	446	(843)	(30,369)	(2,325)	(11,462)	(3,564)	(61,015)	(98,144)	251	213,823	(203,643)	(150)	530	2,807	(6,468)	(90,994)	(152,009)
Total Comprehensive Income and Expenditure	CIES	44,076	0	0	0	0	0	0	0	44,076	(20,824)	147	57,425	0	0	0	0	0	36,748	80,824
Adjustments between accounting basis & funding	7	(37,007)	0	0	0	0	0	(472)	1,918	(35,561)	19,472	0	(6,852)	19,177	36	(31)	(671)	4,430	35,561	0
Reserves	8.1	(7,069)	2,029	1,317	205	3,202	317	0	0	0	0	0	0	0	0	0	0	0	0	0
(Increase) / Decrease in 2016/17	8/9	0	2,029	1,317	205	3,202	317	(472)	1,918	8,515	(1,352)	147	50,573	19,177	36	(31)	(671)	4,430	72,309	80,824
Balance at 31 March 2017 - carried forward	8/9	(7,680)	(3,190)	1,763	(638)	(27,167)	(2,008)	(11,934)	(1,646)	(52,500)	(99,496)	398	264,396	(184,466)	(114)	499	2,136	(2,038)	(18,685)	(71,185)

# Comprehensive Income and Expenditure Statement



2016/2017				Note	2017/2018		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			People & Communities				
91,363	(22,416)	68,947	Adult Social Care		94,459	(27,685)	<b>66,774</b>
4,702	(3,152)	1,550	Housing Services		4,674	(3,364)	<b>1,310</b>
36,771	(7,742)	29,029	Children & Young People		35,690	(5,189)	<b>30,501</b>
10,193	(10,372)	(179)	Public Health		10,044	(10,071)	<b>(27)</b>
138,959	(102,529)	36,430	Schools Budgets & Grants		100,017	(83,195)	<b>16,822</b>
281,988	(146,211)	135,777			244,884	(129,504)	<b>115,380</b>
73,059	(73,704)	(645)	Corporate Services		59,843	(68,542)	<b>(8,699)</b>
64,265	(15,050)	49,215	Development & Environment		68,697	(14,974)	<b>53,723</b>
2,830	(1,486)	1,344	Non Service		2,035	(1,314)	<b>721</b>
<b>422,142</b>	<b>(236,451)</b>	<b>185,691</b>	<b>Cost of Services</b>	10	<b>375,459</b>	<b>(214,334)</b>	<b>161,125</b>
34,306	0	34,306	Other Operating Expenditure	11	53,500	0	<b>53,500</b>
13,199	(1,898)	11,301	Financing and investment income and expenditure	12	12,453	(1,512)	<b>10,941</b>
0	(187,222)	(187,222)	Taxation and non-specific grant income	13	0	(173,366)	<b>(173,366)</b>
<b>469,647</b>	<b>(425,571)</b>	<b>44,076</b>	<b>(Surplus) / Deficit on Provision of Services</b>	10,16	<b>441,412</b>	<b>(389,212)</b>	<b>52,200</b>
		(20,824)	(Surplus) / deficit on revaluation of non-current assets	9.2			<b>(13,624)</b>
		147	(Surplus) / deficit on revaluation of available for sale financial assets	9.3			<b>(94)</b>
		57,425	Remeasurements of net defined benefit liability	9.7			<b>(23,924)</b>
		<b>36,748</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(37,642)</b>
		<b>80,824</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>14,558</b>

# Balance Sheet



31 March 2017 £000		Note	31 March 2018 £000
	Property, Plant and Equipment		
240,907	Other Land and Buildings	24.1	193,403
129,816	Infrastructure Assets	24.1	130,452
4,429	Community Assets	24.1	4,396
13,669	Vehicles, Plant, Furniture and Equipment	24.1	12,139
10,832	Assets Under Construction	24.1	15,507
400	Intangible Assets		350
288	Heritage Assets		288
17,509	Investment Property	25	56,403
4,652	Long Term Investments	31.1	9,748
1,220	Long Term Debtors		3,037
<b>423,722</b>	<b>Long Term Assets</b>		<b>425,723</b>
3,398	Cash and Cash Equivalents	CFS	3,236
75,709	Short Term Investments	31.1	56,150
0	Assets Held for Sale		610
34	Inventories		34
43,220	Short Term Debtors	27	31,590
<b>122,361</b>	<b>Current Assets</b>		<b>91,620</b>
(21,550)	Short Term Borrowing	31.1	(643)
(38,723)	Short Term Creditors	28	(45,087)
(2,683)	Provisions	29	(3,528)
(10,524)	Capital Grants Receipts in Advance	14	(12,347)
<b>(73,480)</b>	<b>Current Liabilities</b>		<b>(61,605)</b>
(1,547)	Provisions	29	(1,539)
(118,405)	Long Term Borrowing	31.1	(148,305)
(14,425)	Long Term Borrowing - Ex Avon Debt	33	(13,848)
(264,396)	Pensions Liabilities	35.1	(232,726)
(2,645)	Other Long Term Liabilities		(2,694)
<b>(401,418)</b>	<b>Long Term Liabilities</b>		<b>(399,112)</b>
<b>71,185</b>	<b>Net Assets</b>		<b>56,626</b>
(52,500)	Usable Reserves	8.1	(51,576)
(18,685)	Unusable Reserves	9.1	(5,050)
<b>(71,185)</b>	<b>Total Reserves</b>		<b>(56,626)</b>

**Malcolm Coe, Head of Finance & Property**  
30 May 2018

# Cash Flow Statement



2016/2017 £000		Note	2017/2018 £000
(44,076)	Net surplus / (deficit) on the provision of services	CIES	(52,200)
73,383	Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements	37.1	83,526
(39,799)	Adjustments for items included in the provision of services that are investing or financing activities	37.2	(29,442)
<b>(10,492)</b>	<b>Net cash flows from Operating Activities</b>		<b>1,884</b>
	<b>Investing Activities</b>		
(47,331)	Purchase of non-current assets		(67,490)
3,402	Proceeds from sale of non-current assets		4,089
			<b>(63,401)</b>
(320,100)	Purchase of short and long term investments		(292,702)
328,100	Proceeds from sale of short and long term investments		307,200
			<b>14,498</b>
(597)	Other payments for Investing Activities		(1,856)
32,167	Other receipts from Investing Activities		37,307
			<b>35,451</b>
<b>(4,359)</b>	<b>Net cash flows from Investing Activities</b>		<b>(13,452)</b>
	<b>Financing Activities</b>		
54,022	Cash receipts from short and long term borrowing		46,672
(39,261)	Repayments of short and long term borrowing		(38,247)
			<b>8,425</b>
(68)	Finance lease repayments		(32)
1,110	Other net (payments) / receipts for Financing Activities		3,013
			<b>2,981</b>
<b>15,803</b>	<b>Net cash flows from Financing Activities</b>		<b>11,406</b>
<b>952</b>	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(162)</b>
2,446	Cash and cash equivalents at the beginning of the reporting period		3,398
<b>3,398</b>	<b>Cash and cash equivalents at the end of the reporting period comprising:</b>		<b>3,236</b>
3,398	Cash held by the Council	37.4	3,236
0	Bank Current Accounts		0
<b>3,398</b>			<b>3,236</b>





# Notes to the Accounts



# Technical Notes, Judgements and Assumptions



## 1. Critical judgements in applying accounting policies

In applying its accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Funding - There remains uncertainty about future levels of funding for the Council and local government as a whole. The Council has had to consider a range of options on how to continue to provide its services with a reduced level of funding which has included considerations regarding its asset base. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of services provision.
- Better Care Funding - The Section 75 agreement by which Better Care resources have been agreed between the Council and North Somerset CCG has been assessed against the appropriate standards, mainly IFRS 10 and IFRS11. Following consideration of the control and governance arrangements of the underlying transaction streams, officers have judged that the arrangement should be classified as a 'joint operation'. As such, the Council and CCG accounts for the assets, liabilities, revenues and expenses relating to their involvement in the joint operation. Further details are set out in Note 25.
- Accounting for schools non-current assets –The Council recognises the local authority maintained schools land and buildings on its Balance Sheet where it directly owns the assets, and the building assets of schools where the owning entity has transferred rights to use the assets to the Council. The Council has completed a school by school assessment across the different types of schools it controls within the district. Judgements have been made to determine the arrangements in place, and the subsequent accounting treatment of the land and building assets.
- Fair value of PWLB borrowing – The Council has determined that the appropriate basis for assessing the fair value of its PWLB borrowing is to apply observed rates of return for comparable replacement borrowing.
- Group accounting – The Council has an interest in an entity which falls within the group boundary of the Council on the grounds of control under the Code. However this interest does not significantly impact on the Council's overall net assets or the Comprehensive Income and Expenditure Statement. The Council's view is therefore that this does not warrant producing consolidated group financial statements, on the grounds of materiality, both from a quantitative and qualitative perspective. Narrative disclosures regarding this relationships have been made in the related party transactions note (Note 23).

Materiality has been applied in all judgements which significantly affect the financial statements.

## 2. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from these estimates. There have been no significant changes to the basis of these estimates compared to the previous year. The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### Property, Plant and Equipment - Depreciation

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate could potentially make it uncertain that the Council will be unable to sustain its current spending on repairs and maintenance, which would bring into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation would increase, and the carrying amount of the asset would fall. However, the impact of any expected change in useful lives would be not considered likely to be material.

# Technical Notes, Judgements and Assumptions



## Property, Plant and Equipment - Valuation

The Council's portfolio of assets is re-valued as part of a 5-year rolling programme. The value of those assets is based upon calculations and estimation techniques employed by the Council's valuers following the Royal Institution of Chartered Surveyors (RICS) guidance. Changes in asset values are largely influenced by market forces which can be volatile. As a consequence the balance of properties valued differs from year to year.

Any revaluation of assets either upward or downward would be reflected in the Council's asset base. It is estimated that a 1% change in net book asset values would result in a change of approximately £3.6m (2016/17 £4m).

The Authority is required to review whether there is any indication of material impairment to property values at the Balance Sheet date, and that the net book value of PPE assets in the accounts is materially in line with their current (market) value. To satisfy this requirement the Council's has undertaken a desktop re-valuation of the asset portfolio using national indices (notably IPD and BCIS) and also considered other local factors. This confirmed that there has been no material impairment to property values, and consequently no adjustments have been required.

## Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged by the Avon Pension Fund to provide the Council and other member bodies with expert advice about the assumptions to be applied.

The effects of changes in individual assumptions can have a significant impact on the value of the net pensions liability. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension deficit of the Local Government Pension Scheme of £11.1m (2016/17 £11.6m), and a decrease of £0.2m (2016/17 £0.3m) of the Teachers Unfunded Discretionary Benefits.

## Fair Value Measurements

Investment properties and surplus assets are measured at Fair Value in line with accounting policies. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, estimation techniques are required in establishing fair values. These estimates typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities. Further information on the fair value measurement assumptions is included in Notes 25 and 31.

### **3. Material items of income and expenditure**

There are no material items of income and expenditure that are not disclosed elsewhere within the Statement of Accounts.

### **4. Events after the reporting period**

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 31 July 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

5 schools with a Net Book Value of £17.3m included in the Balance Sheet as at 31 March 2018 transferred to Academy status between 1 April 2018 and the approval of the accounts. This transfer will be accounted for in the 2018/19 accounts.

# Technical Notes, Judgements and Assumptions



## 5. Accounting standards not yet adopted

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. New or amended international accounting standards that have been issued and will be adopted by the Code in 2018/19, and are expected to have a significant impact on the Council's accounts from 1 April 2018, are:

### IFRS 9 Financial Instruments

IFRS 9 replaces IAS39 Financial Instruments: Recognition and Measurement. The main changes introduced by the new standard are changes in the classification and measurement of financial assets, and the accounting for changes in asset values. Non-contractual debts are excluded from the scope of IFRS 9. These particularly include taxation debtors such as council tax, non-domestic rates and district rates.

Financial assets will be re-classified as either Amortised Cost, Fair Value through Other Comprehensive Income, or Fair Value through the Profit and Loss. There will no longer be a category of 'Available for Sale' financial assets.

The new standard requires different accounting treatment for the new categories of financial asset. Any 'Available for Sale' financial assets, which are currently held at fair value, will be re-classified and revalued. The difference in valuation will clear the balance on the 'Available For Sale' Reserve to Nil. The balance on this reserve at the current year end is not material.

The Government is currently consulting on whether to allow a 'statutory override' allowing the impact of changes in valuation of assets held at Fair Value through the Profit and Loss to be taken to the Unusable Reserves, rather than hitting the 'bottom line' of the Comprehensive Income and Expenditure Statement, and hence the General Fund Balance.

The Council holds 'Available for Sale' investments which are quoted on active markets, and therefore likely to be valued at Amortised cost. These are its investment in the CCLA, a pooled property investment fund, and its investments in multi-asset funds. The Council's investments are included in the current year's accounts as 'Available for Sale', and valued at Fair value of £9.969m.

In the current year, a change in fair value of £94k was credited / charged to the Available for Sale Reserve. Under IFRS 9, subject to the agreement of a statutory override by the Government, it is currently likely that this amount would impact on the General Fund Balance. Hence the implementation of this aspect of IFRS9 is not expected to materially impact on the Council's accounts.

Under IFRS9 Financial assets which are not 'Fair value through the Profit and Loss', or equity instruments, will be subject to revised treatment of impairment losses. The current model recognises only historically incurred losses. Under the new standard, estimates of expected future losses will be recognised. 'Future loss allowances' will be set aside and released at the end of the life of the instrument. It is currently likely that the impact of changes in the new 'Future loss allowance' will hit the General Fund each year. Future loss allowances for relevant financial assets are not expected to be material to the Council's accounts.

The new standard will be applied using a prospective approach. Opening balances will be re-stated in the 2018/19 year, with no re-statement of prior year comparators.

### IFRS 15 Revenue from Contracts with Customers

IFRS15 replaces IAS11 Construction Contracts, and IAS18 Revenue. The standard relates to all contracts with customers except leases, financial instruments and insurance contracts. Council Tax and NNDR income is outside of the scope of the standard.

The objective of the standard is to establish the principles the Council is required to apply to report useful information to the users of financial statements about the nature, amount, timing and uncertainty of revenues arising from contracts with service recipients.

# Technical Notes, Judgements and Assumptions



The Council's initial review of its revenue income streams has not identified any significant contracts falling within the scope of the new standard. Hence the impact of the implementation of the standard is not expected to be material.

## Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

Amendments will require local authorities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities. Other changes due to annual improvements are not expected to have a material effect on the Council's Statement of Accounts.

## 6. Prior Period Adjustments

The Council has re-analysed the comparators in Note 16 – Analysis by Nature, in order make the analysis consistent with that used in the current year, notably re-classifying non-government revenue grants and contributions from 'Fees, charges and other income' to 'Government Grants and Contributions'. This also enables Notes 16 to be consistent with the total of Grant income detailed in Note 14.

	2016/17	Changes	2016/17 Re-stated
	£000	£000	£000
<b>Expenditure</b>			
Employee Benefits Expenses	109,879	0	<b>109,879</b>
Other Services Expenses	261,395	(506)	<b>260,889</b>
Support Service Recharges	0	0	<b>0</b>
Depreciation, Amortisation and Impairment	19,549	(177)	<b>19,372</b>
Interest Payments	7,094	87	<b>7,181</b>
Precepts and Levies	4,777	506	<b>5,283</b>
Payments to the Housing Capital Receipts Pool	27	0	<b>27</b>
(Gains) / losses on the disposal of non-current assets	58,776	(35)	<b>58,741</b>
Revenue Expenditure Financed by Capital Under Statute	8,151	0	<b>8,151</b>
	<u>469,648</u>	<u>(125)</u>	<u><b>469,523</b></u>
<b>Income</b>			
Fees, Charges and Other Service Income	(77,372)	34,368	<b>(43,004)</b>
Interest & Investment Income	(1,917)	177	<b>(1,740)</b>
Income from Council Tax, Non-Domestic Rates	(128,353)	0	<b>(128,353)</b>
Government Grants & Contributions	(215,161)	(34,420)	<b>(249,581)</b>
Internal Recharges	(2,769)	0	<b>(2,769)</b>
	<u>(425,572)</u>	<u>125</u>	<u><b>(425,447)</b></u>
<b>(Surplus) / Deficit on Provision of Services</b>	<u>44,076</u>	<u>0</u>	<u><b>44,076</b></u>

The comparators to Note 18.1, Senior Officers Remuneration, have been re-stated to reflect a change in the Council's interpretation of Code guidance as to whether election payments form part of employees remuneration from the Council. The disclosure previously included all payments for Election duties. The comparators have been amended to reflect only those payments relating to North Somerset Council elections, which were subsequently found to be Nil.

The comparators to Note 18.2, Officers remuneration over £50,000, have been re-stated to correct an error in the prior year disclosure. The entries previously reflected annualised salaries in error, rather than amounts paid in the year.

# Notes to the Movement in Reserves Statement



## 7. Adjustments between accounting basis and funding basis under statutory provisions

This note details the adjustments made to the total Comprehensive Income and Expenditure recognised by the Council within the year to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure, in accordance with proper accounting practice.

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
<b>2017/2018 ADJUSTMENTS</b>				
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non-current assets	(14,360)	0	0	14,360
Charges for impairment of non-current assets	(7,015)			7,015
Revaluation losses on Property, Plant and Equipment	(523)	0	0	523
Movements in the fair value of Investment Properties	(409)	0	0	409
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	25,133	0	0	(25,133)
Revenue expenditure funded from capital under statute	(9,774)	0	0	9,774
Net gain or loss on sale or de-recognition of non-current assets and non-current assets held for sale	(64,335)	0	0	64,335
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for repayment of debt	4,924	0	0	(4,924)
Capital expenditure charged against General Fund Balances	1,752	0	0	(1,752)
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	240	0	(240)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	444	(444)
<b>Adjustments primarily involving the Capital Receipts Reserve</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,070	(4,070)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	6,425	0	(6,425)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(14)	14	0	0
Transfer from Deferred Capital Receipts Reserve on receipt of cash	0	(19)	0	19
Other Adjustments				
Write down of long term debtor on receipt of loan principal	0	(15)	0	15
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	31	0	0	(31)
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(6,582)	0	0	6,582
Employer's pension contributions and direct payments to pensioners payable in the year	14,328	0	0	(14,328)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
Amount by which Collection Fund income debited to the Comprehensive Income and Expenditure Statement is different from Collection Fund income calculated for the year in accordance with statutory requirement	(2,084)	0	0	2,084
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	802	0	0	(802)
<b>TOTAL ADJUSTMENTS</b>	<b>(53,816)</b>	<b>2,335</b>	<b>204</b>	<b>51,277</b>

# Notes to the Movement in Reserves Statement



	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
<b>2016/2017 ADJUSTMENTS</b>				
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(21,876)	0	0	21,876
Revaluation losses on Property, Plant and Equipment	2,328	0	0	(2,328)
Movements in the fair value of Investment Properties	177	0	0	(177)
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	36,266	0	0	(36,266)
Revenue expenditure funded from capital under statute	(8,151)	0	0	8,151
Net gain or loss on sale or de-recognition of non-current assets and non-current assets held for sale	(62,142)	0	0	62,142
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory and voluntary provision for repayment of debt	7,518	0	0	(7,518)
Capital expenditure charged against General Fund Balances	2,242	0	0	(2,242)
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	168	0	(168)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	2,086	(2,086)
<b>Adjustments primarily involving the Capital Receipts Reserve</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,366	(3,366)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	2,917	0	(2,917)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(27)	27	0	0
Transfer from Deferred Capital Receipts Reserve on receipt of cash	0	(36)	0	36
Other Adjustments				
Write down of long term debtor on receipt of loan principal	0	(14)	0	14
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	31	0	0	(31)
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(9,226)	0	0	9,226
Employer's pension contributions and direct payments to pensioners payable in the year	16,078	0	0	(16,078)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
Amount by which Collection Fund income debited to the Comprehensive Income and Expenditure Statement is different from Collection Fund income calculated for the year in accordance with statutory requirement	(4,430)	0	0	4,430
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	671	0	0	(671)
<b>TOTAL ADJUSTMENTS</b>	<b>(37,007)</b>	<b>(472)</b>	<b>1,918</b>	<b>35,561</b>

# Notes to the Movement in Reserves Statement



## 8. Usable Reserves

### 8.1 Summary of Usable Reserves

The Council's usable reserves are those that can be applied to fund expenditure or reduce local taxation, along with other ring-fenced reserves.

	Balance 1 April 2017 £000	Net Movement in Year £000	Balance 31 March 2018 £000	Note
<u>General Fund Balance</u>	(7,680)	(960)	<b>(8,640)</b>	
<u>School Balances</u>				
- LMS Schools	(3,190)	1,854	<b>(1,336)</b>	
- Dedicated Schools Grant	1,763	(343)	<b>1,420</b>	Note 15
- Other Schools Balances	(639)	193	<b>(446)</b>	
	<u>(2,066)</u>	<u>1,704</u>	<u><b>(362)</b></u>	
<u>Earmarked Revenue and Capital Reserves</u>	(29,175)	(2,359)	<b>(31,534)</b>	Note 8.2
<u>Total General Fund and Earmarked Reserves - Revenue</u>	<u>(38,921)</u>	<u>(1,615)</u>	<u><b>(40,536)</b></u>	Note 10
<u>Usable Capital Financing Reserves</u>				
- Capital Receipts Reserve	(11,933)	2,335	<b>(9,598)</b>	Note 8.3
- Capital Grants Unapplied	(1,646)	204	<b>(1,442)</b>	Note 8.4
	<u>(13,579)</u>	<u>2,539</u>	<u><b>(11,040)</b></u>	
<b>Total Usable Balances &amp; Reserves</b>	<u><b>(52,500)</b></u>	<u><b>924</b></u>	<u><b>(51,576)</b></u>	

# Notes to the Movement in Reserves Statement



## 8.2 Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

	Balance 1 April 2017 £000	Transfers between Reserves £000	Transfers Out £000	Transfers In £000	Balance 31 March 2018 £000
<b>Earmarked Revenue Reserves</b>					
<u>Corporate Reserves</u>					
Insurance Reserves	(3,061)	80	40	(296)	<b>(3,237)</b>
Severance Reserves	(859)	0	164	(305)	<b>(1,000)</b>
Transformation Programme Reserve - ICT	(23)	23	0	0	<b>0</b>
Transformation Programme Reserve - Digital First	(746)	75	115	0	<b>(556)</b>
Transformation Programme Reserve - Capacity	(316)	(52)	320	(64)	<b>(112)</b>
Transformation Programme Reserve - AIS System	(726)	(405)	172	(80)	<b>(1,039)</b>
Economic & Regeneration Reserve	(1,928)	(16)	799	(310)	<b>(1,455)</b>
City-Deal Smoothing Reserve	(2,689)	0	2,689	(3,503)	<b>(3,503)</b>
Financial Risk Reserve	(2,154)	475	856	(1,361)	<b>(2,184)</b>
Council Tax Smoothing Reserve	(1,111)	0	1,111	(470)	<b>(470)</b>
<u>Directorate Reserves</u>					
People & Communities - Adult Social Services	(63)	0	63	(1,662)	<b>(1,662)</b>
People & Communities - Housing Services	(252)	0	29	(248)	<b>(471)</b>
People & Communities - Children & Young People	(448)	0	47	(60)	<b>(461)</b>
People & Communities - Schools	(180)	0	164	(170)	<b>(186)</b>
People & Communities - Public Health	(433)	0	0	(149)	<b>(582)</b>
People & Communities - Housing Property Funds	(693)	0	0	(63)	<b>(756)</b>
Development & Environment	(1,767)	16	925	(1,463)	<b>(2,289)</b>
Corporate Services	(1,695)	(196)	431	(588)	<b>(2,048)</b>
	<b>(19,144)</b>	<b>0</b>	<b>7,925</b>	<b>(10,792)</b>	<b>(22,011)</b>
<b>Earmarked Deposits &amp; Contributions</b>	<b>(8,023)</b>	<b>0</b>	<b>1,211</b>	<b>(288)</b>	<b>(7,100)</b>
<b>Earmarked Capital Reserves</b>					
General Capital Reserves	(1,994)	0	275	(690)	<b>(2,409)</b>
Earmarked Capital Reserves	(14)	0	0	0	<b>(14)</b>
	<b>(2,008)</b>	<b>0</b>	<b>275</b>	<b>(690)</b>	<b>(2,423)</b>
<b>Total Earmarked Revenue and Capital Reserves</b>	<b>(29,175)</b>	<b>0</b>	<b>9,411</b>	<b>(11,770)</b>	<b>(31,534)</b>

# Notes to the Movement in Reserves Statement



The purpose of each of the above reserves is as follows:

Reserve	Purpose
Insurance Reserve	Resources set-aside to fund uninsured risks and losses; movements in claim values; and claims which may have occurred but have not yet been reported to the Council.
Severance Reserve	To fund severance costs anticipated in future years.
Transformation Reserves	Resources set-aside to fund the one-off investment costs of the Transformation Programme which will improve service delivery and also realise financial benefits in future years. This includes the Digital First programme and also resources to supplement internal capacity.
Economic & Regeneration Reserves	Resources identified to fund potential investment in areas which could stimulate, enhance or yield future economic and financial benefit for the area, together with funding set-aside for the Driving Growth Board programme.
City Deal Smoothing Reserve	Reserve to smooth the financial impact of transactions associated with the City Region Deal arrangement. Balances largely relate to cash contributed by the Council which is yet to be committed by the Pool.
Financial Risk Reserve	Resources set-aside to finance strategic risks and also to fund one-off invest-to-save proposals or key priorities identified within the Corporate or Medium-Term Financial Plans.
Council Tax Smoothing Reserve	Resources set-aside to smooth the impact on the Council's revenue budget for taxpayers.
People & Communities – Including Housing Property Funds	Monies set-aside to fund the Adult Social Care ICT programmes, Housing related surveys, service transformation projects such as Troubled Families, school pooling arrangements and resources to fund specific costs associated with statutory public health functions. Also reflects monies held in sinking funds to be used for repairs on leasehold properties.
Development and Environment	Funds set aside to finance specific Council investment in service provision to benefit the community such as Highways and Community Reassurance programmes. Monies received from unconditional grants such as; LSTF Public Transport, Lead Local Flood, Local Development Orders and Damaged Road grants. Monies also set-aside for planned future costs including major planning appeals and strategic projects.
Corporate Services – Including Partnership Funds	Includes funds set aside to finance community development projects as well as asset management condition and transfer programmes in future years. Partnership funds are those held under the Council's role as an accountable body.
Earmarked Deposits and Contributions	Monies held by the Council to fund future costs arising from development activity.
General Capital Reserve	A general reserve available to finance approved capital expenditure.
Earmarked Capital Reserve	A number of specific capital reserves earmarked for use in delivery of approved capital investment projects.

# Notes to the Movement in Reserves Statement



## 8.3 Capital Receipts Reserve

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(11,462)	<b>(11,934)</b>
Transfer of cash sale proceeds credited as part of the gain/loss on disposal of non-current assets to the Comprehensive Income and Expenditure Statement	(3,366)	<b>(4,069)</b>
Use of Capital Receipts to finance new capital expenditure	2,917	<b>6,425</b>
Financing payment to the Government Housing Capital Receipts Pool	27	<b>14</b>
Transfer from Deferred Capital Receipts Reserve	(36)	<b>(19)</b>
Transfer from the Capital Adjustment Account to reflect write-down of long-term debtor	(14)	<b>(15)</b>
<b>Balance carried forward - 31 March</b>	<b>(11,934)</b>	<b>(9,598)</b>

## 8.4 Capital Grants Unapplied

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(3,564)	<b>(1,646)</b>
Transfer to Capital Adjustment Account to finance capital spend	2,086	<b>444</b>
Capital Grants and Contributions unapplied, credited to the Comprehensive Income and Expenditure Statement	(168)	<b>(240)</b>
<b>Balance carried forward - 31 March</b>	<b>(1,646)</b>	<b>(1,442)</b>

# Notes to the Movement in Reserves Statement



## 9. Unusable Reserves

### 9.1 Summary of Unusable Reserves

	Balance 1 April 2017 £000	Net Movement in Year £000	Balance 31 March 2018 £000	Note
<u>Revaluation Balances</u>				
Revaluation Reserve	(99,496)	16,364	<b>(83,132)</b>	Note 9.2
Available for Sale Financial Instrument Reserve	398	(94)	<b>304</b>	Note 9.3
	<u>(99,098)</u>	<u>16,270</u>	<u><b>(82,828)</b></u>	
<u>Adjustment Accounts</u>				
Capital Adjustment Account	(184,465)	27,765	<b>(156,700)</b>	Note 9.4
Financial Instruments Adjustment Account	499	(31)	<b>468</b>	Note 9.5
Collection Fund Adjustment Account	(2,038)	2,083	<b>45</b>	Note 9.6
Pensions Reserve	264,396	(31,670)	<b>232,726</b>	Note 9.7
Accumulated Absences Account	2,136	(802)	<b>1,334</b>	Note 9.8
Deferred Capital Receipts Reserve	(114)	19	<b>(95)</b>	Note 9.9
	<u>80,414</u>	<u>(2,636)</u>	<u><b>77,778</b></u>	
<b>Total Unusable Reserves</b>	<u>(18,684)</u>	<u>13,634</u>	<u><b>(5,050)</b></u>	

### 9.2 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(98,144)	<b>(99,496)</b>
Upward revaluation of assets	(23,099)	<b>(16,804)</b>
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	2,275	<b>3,180</b>
<b>Surplus / deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	(20,824)	<b>(13,624)</b>
Accumulated gains on assets sold or scrapped	17,216	<b>27,823</b>
Difference between fair value depreciation and historical cost depreciation	2,256	<b>2,165</b>
<b>Amount written off to the Capital Adjustment Account</b>	19,472	<b>29,988</b>
<b>Balance carried forward - 31 March</b>	<u>(99,496)</u>	<u><b>(83,132)</b></u>

# Notes to the Movement in Reserves Statement



## 9.3 Available For Sale Financial Instrument Reserve

The Available for Sale Financial Instruments Reserve contains the unrealised gains and losses made by the Council arising from increases and decreases in the value of its long term Available for Sale investments.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	251	<b>398</b>
Upwards revaluation of investments	0	<b>(193)</b>
Downwards revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	147	<b>99</b>
<b>Balance carried forward - 31 March</b>	<b>398</b>	<b>304</b>

# Notes to the Movement in Reserves Statement



## 9.4 Capital Adjustment Account

The balance on the Account represents timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(203,643)	<b>(184,465)</b>
<u>Reversal of Items relating to Capital Expenditure debited or credited to the Comprehensive Income and Expenditure Statement</u>		
Charges for Depreciation of Non Current Assets	15,615	<b>14,360</b>
Charges for Impairment of Non Current Assets	6,261	<b>7,015</b>
Revaluations Losses on Property, Plant and Equipment	(2,327)	<b>523</b>
Revenue Expenditure Financed by Capital Under Statute	8,151	<b>9,774</b>
Amounts of non-current assets written off on disposal or sale as part of the Gain or Loss on Disposal to the Comprehensive Income and Expenditure Statement	62,142	<b>64,335</b>
	<u>89,842</u>	<u><b>96,007</b></u>
<u>Adjusting Amounts relating to the Revaluation Reserve</u>		
Adjusting amounts written out on disposal or sale of non-current assets	(17,216)	<b>(27,823)</b>
Historical cost depreciation adjustment	(2,256)	<b>(2,165)</b>
	<u>(19,472)</u>	<u><b>(29,988)</b></u>
<b>Net written amount out of the cost of non-current assets consumed in the year</b>	<u>70,370</u>	<u><b>66,019</b></u>
<u>Adjusting Amounts relating to the Capital Receipts Reserve</u>		
Write down of long-term debtor	14	<b>15</b>
	<u>14</u>	<u><b>15</b></u>
<u>Capital Financing Applied in the year</u>		
Use of Capital Receipts Reserve to finance new capital expenditure	(2,917)	<b>(6,425)</b>
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(36,266)	<b>(25,133)</b>
Application of Grants and Contributions to capital financing from the Capital Grants Unapplied Account	(2,086)	<b>(444)</b>
Statutory provision for the financing of capital investment charged against the General Fund Balance	(7,518)	<b>(4,924)</b>
Capital expenditure charged against the General Fund Balance	(2,242)	<b>(1,752)</b>
	<u>(51,029)</u>	<u><b>(38,678)</b></u>
Movements in the Market Value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(177)	<b>409</b>
<b>Balance carried forward - 31 March</b>	<u>(184,465)</u>	<u><b>(156,700)</b></u>

# Notes to the Movement in Reserves Statement



## 9.5 Financial Instruments Adjustment Account

This Account absorbs the timing differences arising from discounts and premia on premature debt redemption, and similar financial transactions.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	530	499
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(31)	(31)
<b>Balance carried forward - 31 March</b>	<b>499</b>	<b>468</b>

## 9.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of the Council's share of both council tax and business rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(6,468)	(2,038)
Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements		
- Council Tax	13	1,366
- Business Rates	4,532	485
- Business Rates: Diregarded Amount	(115)	232
	4,430	2,083
<b>Balance carried forward - 31 March</b>	<b>(2,038)</b>	<b>45</b>

# Notes to the Movement in Reserves Statement



## 9.7 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The amounts shown below bring together adjustments for the Local Government Pension Scheme and Unfunded Teachers' Discretionary Benefits (see Note 35.1).

	2016/17			2017/18		
	LGPS £000	Teachers' Discretionary Benefits £000	Total £000	LGPS £000	Teachers' Discretionary Benefits £000	Total £000
Balance brought forward - 1 April	188,790	25,033	213,823	<b>239,176</b>	<b>25,220</b>	<b>264,396</b>
Remeasurements of the net defined benefit liability:						
- Return on plan assets	(39,227)	0	(39,227)	<b>2,598</b>	<b>0</b>	<b>2,598</b>
- Experience (Gains) / Losses	(35,552)	(1,502)	(37,054)	<b>0</b>	<b>0</b>	<b>0</b>
- (Gains) / Losses on financial assumptions	133,439	2,894	136,333	<b>(26,028)</b>	<b>(494)</b>	<b>(26,522)</b>
- (Gains) / Losses on demographic assumptions	(2,328)	(299)	(2,627)	<b>0</b>	<b>0</b>	<b>0</b>
Total Remeasurements of the net defined benefit liability	56,332	1,093	57,425	<b>(23,430)</b>	<b>(494)</b>	<b>(23,924)</b>
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	8,404	822	9,226	<b>5,973</b>	<b>609</b>	<b>6,582</b>
Employer's pensions contributions and direct payments to pensioners payable in the year	(14,350)	(1,728)	(16,078)	<b>(12,619)</b>	<b>(1,709)</b>	<b>(14,328)</b>
<b>Balance carried forward - 31 March</b>	<b>239,176</b>	<b>25,220</b>	<b>264,396</b>	<b>209,100</b>	<b>23,626</b>	<b>232,726</b>

# Notes to the Movement in Reserves Statement



## 9.8 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at the year end. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2017/18 £000	2017/18 £000
Balance brought forward - 1 April	2,807	2,136
Settlement or cancellation of accrual made at the end of the preceding year	(2,807)	(2,136)
Amounts accrued at the end of the current year	2,136	1,334
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(671)	(802)
<b>Balance carried forward - 31 March</b>	<b>2,136</b>	<b>1,334</b>

## 9.9 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2016/17 £000	2017/18 £000
Balance brought forward - 1 April	(150)	(114)
Transfer to the Capital Receipts Reserve upon receipt of cash	36	19
<b>Balance carried forward - 31 March</b>	<b>(114)</b>	<b>(95)</b>

# Notes to the Comprehensive Income and Expenditure Statement



## 10. Expenditure and Funding Analysis

2016/2017				Note	2017/2018		
Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000			Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000
68,836	111	68,947	People & Communities		66,119	655	66,774
(1,016)	2,566	1,550	Adult Social Care		1,168	142	1,310
31,191	(2,162)	29,029	Housing Services		30,118	383	30,501
(153)	(26)	(179)	Children & Young People		(91)	64	(27)
908	35,522	36,430	Public Health		1,776	15,046	16,822
99,766	36,011	135,777	Schools Budgets & Grants		99,090	16,290	115,380
8,065	(8,710)	(645)	Corporate Services		4,995	(13,694)	(8,699)
35,663	13,552	49,215	Development & Environment		37,124	16,599	53,723
1,344	0	1,344	Non Service		835	(114)	721
144,838	40,853	185,691	<b>Net Cost of Services</b>	<b>CIES</b>	<b>142,044</b>	<b>19,081</b>	<b>161,125</b>
(137,769)	(3,846)	(141,615)	Other Income and Expenditure		(143,660)	34,735	(108,925)
7,069	37,007	44,076	<b>(Surplus) / Deficit on Provision of Services</b>	<b>CIES</b>	<b>(1,616)</b>	<b>53,816</b>	<b>52,200</b>
General Fund Reserves £000	Earmarked Revenue Reserves £000	Total GF and Earmarked Reserves £000			General Fund Reserves £000	Earmarked Revenue Reserves £000	Total GF and Earmarked Reserves £000
(7,680)	(38,309)	(45,989)	Opening Balance at 1 April		(7,680)	(31,240)	(38,920)
0	7,069	7,069	Net movement in year		(960)	(656)	(1,616)
(7,680)	(31,240)	(38,920)	<b>Closing Balance at 31 March</b>	<b>8.1</b>	<b>(8,640)</b>	<b>(31,896)</b>	<b>(40,536)</b>

# Notes to the Comprehensive Income and Expenditure Statement



## 10.1 Note to the Expenditure and Funding Analysis - Adjustments Between Funding and Accounting Basis

2016/2017						2017/2018			
Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000		Note	Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000
459	(293)	(55)	111	People & Communities		56	529	70	655
2,615	(36)	(13)	2,566	Adult Social Care		64	74	4	142
13	(2,104)	(71)	(2,162)	Housing Services		(215)	656	(58)	383
0	(24)	(2)	(26)	Children & Young People		0	53	11	64
36,686	(704)	(460)	35,522	Public Health		16,716	(783)	(887)	15,046
39,773	(3,161)	(601)	36,011	Schools Budgets & Grants		16,621	529	(860)	16,290
1,838	(10,519)	(29)	(8,710)	Corporate Services		1,650	(15,366)	22	(13,694)
13,961	(368)	(41)	13,552	Development & Environment		15,849	714	36	16,599
0	0	0	0	Non Service		(114)	0	0	(114)
55,572	(14,048)	(671)	40,853	<b>Net Cost of Services</b>		<b>34,006</b>	<b>(14,123)</b>	<b>(802)</b>	<b>19,081</b>
(15,440)	7,195	4,399	(3,846)	Other Income and Expenditure from the Expenditure and Funding Analysis		26,305	6,378	2,052	34,735
40,132	(6,853)	3,728	37,007	<b>Difference Between the General Fund (Surplus) / Deficit and the Comprehensive Income and Expenditure (Surplus) / Deficit on Provision of Services</b>	<b>10</b>	<b>60,311</b>	<b>(7,745)</b>	<b>1,250</b>	<b>53,816</b>

# Notes to the Comprehensive Income and Expenditure Statement



## 10.2 Other Expenditure and Funding Analysis Notes

The Expenditure and Funding Analysis shows how annual net expenditure funded from local government resources (government grants, council tax and business rates) compares to annual net expenditure calculated in accordance with generally accepted accounting practices. It also shows how net expenditure is allocated for decision making purposes between the Council's directorates.

### 10.2.1 Adjustments for Capital Purposes

- **Cost of services** - adds in depreciation, impairments, revaluation gains and losses into the relevant service line
- **Other income and expenditure**, including:
  - **Other operating expenditure** – adjusts for capital disposals, with a transfer of income on disposal of assets, and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### 10.2.2 Net Charge for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **Cost of services** - represents the removal of the employer pension contributions made by the authority as allowed by statute, and their replacement with current service costs and past service costs.
- **Other Income and Expenditure - Financing and investment income and expenditure**– inclusion of the net interest on the defined benefit liability, which is charged to the Comprehensive Income and Expenditure Statement.

### 10.2.3 Other Statutory Adjustments

Other statutory adjustments between amounts debited or credited to the Comprehensive Income and Expenditure Statement and amount payable or receivable to be recognised under statute:

- **Cost of services** - the 'Other Statutory Adjustments' column recognises adjustments to the General Fund for the timing differences re accumulated absences
- **Other income and expenditure**, including:
  - For **Financing and investment income and expenditure**, the 'Other Statutory Adjustments' column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
  - The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year, and the income recognised under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

# Notes to the Comprehensive Income and Expenditure Statement



## 11. Other Operating Expenditure

	2016/17 £000	2017/18 £000
Parish Council Precepts	4,509	4,540
Other Precepts and Levies	267	273
Payments to the Government Housing Capital Receipts Pool	27	14
(Gains) / Losses on the Disposal of Non-Current Assets	29,503	48,673
<b>Total</b>	<b>34,306</b>	<b>53,500</b>

## 12. Financing and Investment Income and Expenditure

	2016/17 £000	2017/18 £000
Interest payable and similar charges	6,003	5,666
Net interest on net defined benefit pension liability & administration expense	7,195	6,378
Income and expenditure in relation to Investment Properties and changes in their fair value	(177)	409
	13,021	12,453
Interest receivable and similar income	(1,720)	(1,512)
<b>Total</b>	<b>11,301</b>	<b>10,941</b>

## 13. Taxation and Non Specific Grant Income

	2016/17 £000	2017/18 £000
<b>Income from Taxation</b>		
Council Tax Income	(96,484)	(102,414)
Business Rate Income	(31,869)	(29,565)
	(128,353)	(131,979)
<b>Non-specific Grants and Capital Contributions</b>		
Non-ringfenced government grants	(28,704)	(24,075)
Capital grants and contributions	(30,164)	(17,312)
	(58,868)	(41,387)
<b>Total</b>	<b>(187,221)</b>	<b>(173,366)</b>

The total for Non-ringfenced government grants is comprised of:

	2016/17 £000	2017/18 £000
Revenue Support Grant	(19,199)	(11,697)
Transitions Grant	(953)	(931)
New Homes Bonus Grant	(6,649)	(5,094)
Section 31 Grants re Business Rates and Council Tax	(1,903)	(5,425)
Adult Social Care Support Grant	0	(928)
<b>Total</b>	<b>(28,704)</b>	<b>(24,075)</b>

# Notes to the Comprehensive Income and Expenditure Statement



## 14. Grant Income

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement in 2017/18.

2016/17		2017/18			
		Government Grants £000	Capital Grants £000	Other Grants & Cont'ns £000	Total Grants & Cont'ns £000
	<b>Credited to Cost of Services</b>				
	People & Communities				
	Adult Social Care:				
(5,004)	NHS NS CCG Better Care Fund	0	0	(4,861)	<b>(4,861)</b>
0	Improved Better Care Fund	0	0	(3,760)	<b>(3,760)</b>
(2,809)	Other Adult Social Care Services Grants & Contributions	(560)	(561)	(3,071)	<b>(4,192)</b>
	Children and Young People:				
(1,679)	Education Services / Early Intervention Grant	(361)	0	0	<b>(361)</b>
(3,843)	Other Children's & Education Services Grants & Contributions	(1,386)	(133)	(1,489)	<b>(3,008)</b>
(2,637)	Housing Services Grants & Contributions	(402)	(1,973)	(199)	<b>(2,574)</b>
(10,090)	Public Health Services Grants	(9,816)	0	(54)	<b>(9,870)</b>
	Schools budgets and grants:				
(84,971)	Dedicated Schools Grant	(66,299)	0	0	<b>(66,299)</b>
(4,338)	Pupil Premium Grant	(2,806)	0	0	<b>(2,806)</b>
(2,169)	Universal Infant Free School Meals	(1,572)	0	0	<b>(1,572)</b>
(5,929)	Other Schools & Education Services Grants & Contributions	(1,161)	(5,294)	(1,857)	<b>(8,312)</b>
	Corporate Services				
(61,048)	Housing Benefit Subsidy	(55,690)	0	0	<b>(55,690)</b>
(730)	Housing Benefit Subsidy Administration	(638)	0	0	<b>(638)</b>
(2,131)	Other Corporate Services Grants & Contributions	(1,328)	0	(997)	<b>(2,325)</b>
(2,619)	Development & Environment	(671)	(31)	(1,275)	<b>(1,977)</b>
(1,434)	Non Service	0	0	(1,200)	<b>(1,200)</b>
<b>(191,431)</b>	<b>Total grants credited to Cost of Services</b>	<b>(142,691)</b>	<b>(7,992)</b>	<b>(18,763)</b>	<b>(169,446)</b>
	<b>Non-specific grants and capital contributions (Note 13)</b>				
(28,704)	Non-ringfenced grants and contributions	(24,075)	0	0	<b>(24,075)</b>
(30,164)	Capital grants and contributions	0	(17,312)	0	<b>(17,312)</b>
<b>(58,868)</b>		<b>(24,075)</b>	<b>(17,312)</b>	<b>0</b>	<b>(41,387)</b>
<b>(250,299)</b>	<b>Total grants and contributions</b>	<b>(166,766)</b>	<b>(25,304)</b>	<b>(18,763)</b>	<b>(210,833)</b>

# Notes to the Comprehensive Income and Expenditure Statement



The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the provider should those conditions not be met. The balances held as Capital grants and contributions Receipts in Advance at the year-end are as follows:

	2016/17 £000	2017/18 £000
Local Transport Plan Grant	(1,698)	(913)
Early Years Child Care Grant	(1,045)	(119)
Basic Need Education Grant	(4,139)	(7,871)
Capital Maintenance Education Grant	(753)	(833)
Other Grants	(2,889)	(2,611)
<b>Total Capital Grants Received in Advance</b>	<b>(10,524)</b>	<b>(12,347)</b>

## 15. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget.

Details of the deployment of DSG for 2017/18 and the balances carried forward at the year-end are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2017/18 before Academy Recoupment	(28,984)	(117,284)	(146,268)
Academy Figure recouped for 2017/18	0	79,969	79,969
<b>Total DSG after Academy recoupment for 2017/18</b>	<b>(28,984)</b>	<b>(37,315)</b>	<b>(66,299)</b>
(Surplus) / Deficit brought forward from 2016/17	2,010	(247)	1,763
<b>Final Budgeted Distribution in 2017/18</b>	<b>(26,974)</b>	<b>(37,562)</b>	<b>(64,536)</b>
Actual central expenditure for the year	28,637	0	28,637
Actual Individual Schools Budget (ISB) deployed to schools in year	0	37,319	37,319
<b>Expenditure in 2017/18</b>	<b>28,637</b>	<b>37,319</b>	<b>65,956</b>
<b>(Surplus) / Deficit Carried Forward to 2018/19</b>	<b>1,663</b>	<b>(243)</b>	<b>1,420</b>

At its meeting on 8<sup>th</sup> March 2017, the Strategic Schools Forum agreed to the carry forward of the deficit on DSG funding at the end of the 2016/17 financial year and into future years, subject to its recovery from future years' DSG allocations to schools over a five-year period.

# Notes to the Comprehensive Income and Expenditure Statement



## 16. Expenditure and Income Analysed by Nature

	2016/17 Re-stated £000	2017/18 £000
<b>Expenditure</b>		
Employee Benefits Expenses	109,879	85,149
Other Services Expenses	260,889	252,234
Support Service Recharges	0	0
Depreciation, Amortisation and Impairment	19,372	22,307
Interest paid	7,181	6,709
Precepts and Levies	5,283	5,319
Payments to the Housing Capital Receipts Pool	27	14
(Gains) / losses on the disposal of non-current assets	58,741	60,227
Revenue Expenditure Financed by Capital Under Statute	8,151	9,774
	469,523	441,733
<b>Income</b>		
Fees, Charges and Other Service Income	(43,004)	(42,626)
Interest & Investment Income received	(1,740)	(1,072)
Income from Council Tax, Non-Domestic Rates	(128,353)	(131,979)
Government Grants & Contributions	(249,581)	(210,833)
Internal Recharges	(2,769)	(3,023)
	(425,447)	(389,533)
<b>(Surplus) / Deficit on Provision of Services</b>	44,076	52,200

## 17. Members' Allowances

	2016/17 £000	2017/18 £000
Basic Allowances	408	409
Special Responsibility Allowances	202	204
Employer's National Insurance	30	31
Travel expenses & subsistence	21	21
<b>Total Members' Allowances</b>	661	665

For full details of individual Members' payments, please see the Council's data share website <http://data.n-somerset.gov.uk/>.

# Notes to the Comprehensive Income and Expenditure Statement



## 18. Officer Remuneration

### 18.1 Senior Officer Remuneration

The remuneration paid to the Council's senior employees is detailed below. A senior employee is an employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989.
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

At North Somerset Council the disclosures relate to the Chief Executive Officer and those officers that form the Council's Corporate Management Team, and the former Director of Public Health (in 2016/17).

No bonuses or benefits in kind were paid to senior officers in the year.

Post	2017/2018					Total Remuneration incl. pension contributions £
	Salary (incl. fees & allowances) £	Compensation for Loss of Employment £	Payments made in respect of NSC elections £	Pension Contributions £		
Chief Executive - Mike Jackson	149,955	0	0	0		149,955
Director of People & Communities	124,893	0	0	32,597		157,490
Director of Development & Environment	117,078	0	0	30,557		147,635
Head of Finance and Property	94,987	0	0	24,792		119,779
Head of Performance Improvement & HR	85,443	0	0	22,301		107,744
Head of Legal & Democratic Services	78,032	0	382	20,366		98,780
	<b>650,388</b>	<b>0</b>	<b>382</b>	<b>130,613</b>		<b>781,383</b>

Post	2016/2017					Total Remuneration incl. pension contributions (re-stated) £
	Salary (incl. fees & allowances) £	Compensation for Loss of Employment £	Payments made in respect of NSC elections (re-stated) £	Pension Contributions £		
Chief Executive	148,470	0	0	37,043		185,513
Director of People & Communities	123,656	0	0	30,852		154,508
Director of Development & Environment	108,174	0	0	26,989		135,163
Head of Finance and Property	96,447	0	0	23,465		119,912
Head of Performance Improvement & HR	84,597	0	0	21,107		105,704
Head of Legal & Democratic Services	77,259	0	0	19,276		96,535
	<b>638,603</b>	<b>0</b>	<b>0</b>	<b>158,732</b>		<b>797,335</b>

This note has been re-stated to reflect members of the Corporate Management team.

In some years the Chief and Deputy Returning Officers and other senior officers receive payments for election duties. Payments in respect of Parliamentary, Parish, Police and Crime Commissioner and European election expenses are not

# Notes to the Comprehensive Income and Expenditure Statement



considered as remuneration for employment by North Somerset Council and are funded by other sources. Payments made in respect of District elections are considered to be remuneration for employment by the Council.

## 18.2 Officers' Remuneration

Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown in the table below. The numbers below cover all Council activities, including teachers, and include those senior officers detailed in Note 18.1 above.

Remuneration Band	No. of Employees		Remuneration Band	No. of Employees	
	Re-stated 2016/17	2017/18		Re-stated 2016/17	2017/18
£50,000 - £54,999	46	36	£95,000 - £99,999	1	0
£55,000 - £59,999	35	30	£100,000 - £104,999	0	1
£60,000 - £64,999	17	4	£105,000 - £109,999	2	0
£65,000 - £69,999	10	10	£110,000 - £114,999	0	0
£70,000 - £74,999	10	4	£115,000 - £119,999	1	1
£75,000 - £79,999	8	6	£120,000 - £124,999	1	0
£80,000 - £84,999	4	4	£125,000 - £129,999	0	1
£85,000 - £89,999	1	2	£130,000 - £134,999	1	0
£90,000 - £94,999	2	1	£145,000 - £149,999	1	1

## 19. Termination Benefits

The total exit packages agreed in the year, and charged to the Comprehensive Income and Expenditure Statement, were:

	2016/2017		2017/2018	
	No. of Packages	£000	No. of Packages	£000
Reflected within the Comprehensive Income & Expenditure Statement				
- Severance Payments		757		312
- Pension Strain Costs		318		320
	64	<u>1,075</u>	32	<u>632</u>

The value of agreed exit packages, all of which were compulsory, are as follows:

	2016/2017		2017/2018	
	No of compulsory redundancies	£000	No of compulsory redundancies	£000
Up to £20,000	46	299	20	111
£20,001 to £40,000	10	288	8	223
£40,001 to £60,000	5	243	2	98
£60,001 to £80,000	2	128	1	63
£80,001 to £100,000	0	0	0	0
£100,001 to £150,000	1	117	1	137
	64	<u>1,075</u>	32	<u>632</u>

# Notes to the Comprehensive Income and Expenditure Statement



## 20. External Audit Costs

In 2017/18 North Somerset Council incurred the following fees relating to external audit and inspection.

	2016/17 £000	2017/18 £000
Fees payable to Grant Thornton UK LLP with regard to the external audit services carried out as the appointed auditor	112	112
Fees payable in respect of any other services provided by the appointed auditor - certification of grant claims and returns:		
- housing benefit subsidy claim	14	15
- teachers pension claim	4	4
- transport claim	4	0
PSAA Ltd refund	0	(17)
<b>Total external audit costs</b>	<b>134</b>	<b>114</b>

## 21. Joint Funding Arrangements and Pooled Budgets

The Better Care Fund is a high-profile policy initiative aimed at enabling health bodies and local authorities to work collaboratively together to address specific health and social care issues by joining resources and government funding allocations. The establishment of joint working arrangements between NHS bodies and local authorities can take many forms which could include localised jointly funded projects, the establishment of pooled budget arrangements, or the adoption of a Section 75 or a Section 256 agreement.

In 2017/18 the Council signed a Section 75 agreement with the North Somerset Clinical Commissioning Group (NSCCG) in respect of Better Care Funding. Officers considered in detail both the nature of the contractual terms and also the underlying substance and form of the commissioning practices when deciding upon the appropriate accounting treatment for the arrangement. This review concluded that a pooled budget was not in place, and that, as neither party had overall control of the pooled funds, the arrangement should be accounted for as a 'joint operation'. This means that each member will recognise their own assets, liabilities, income and expenditure within their accounts.

The following table summarises the following local authority and health agreements in respect of local authority and health functions:

# Notes to the Comprehensive Income and Expenditure Statement



	2016/17 £000	2017/18 £000
Section 75 Agreement - Funding for services commissioned by the Council and included within the Council's Comprehensive Income and Expenditure Statement:		
- Reablement Funding	952	952
- Integrated Community Equipment (ICES) Contribution	859	859
- Integrated Health and Social Care Teams	368	368
- Support to People with Mental Health Needs	1,820	1,820
- Support to Carers	1,020	1,000
- 7-Day working for Health and Social Care	321	321
- Home from Hospital Partnership	552	552
- Single Point of Access	594	594
- Enabling Elderly People to Stay Well at Home	2,390	2,539
- Contingency Allocation	194	194
- Improved Better Care Fund	0	3,760
	9,070	12,959
Section 75 Agreement - Funding for services commissioned by the NSCCG - not included within the Council's Comprehensive Income and Expenditure Statement:		
- Reablement Funding	1,058	1,030
- Integrated Community Equipment (ICES) Contribution	1,407	1,529
- Integrated Health and Social Care Teams	42	42
- Support to People with Mental Health Needs	2,446	2,446
- Support to Carers	121	121
- 7-Day working for Health and Social Care	957	957
- Community Rehabilitation Service	1,495	1,495
- Specialist Older People Team	397	397
- Pay for Performance	777	777
- Contingency Allocation	194	194
	8,894	8,988
<b>Total Funding Identified within Section 75 Agreement</b>	<b>17,964</b>	<b>21,947</b>

The Section 75 agreement identifies the nominated lead commissioners in respect of the following local authority and health functions, although the disclosure above has been adjusted to reflect the underlying substance of the commissioning transactions in accordance with proper accounting practice.

A Section 256 agreement was also in place during the 2017/18 financial year to enable the joint commissioning of services in respect of Free Nursing and Continuing Health Care on behalf of the North Somerset Clinical Commissioning Group.

	2016/17 £000	2017/18 £000
Section 256 Agreement - Funding for services commissioned on behalf of NSCCG - not included within the Council's Comprehensive Income and Expenditure Statement:		
- Continuing Health Care (CHC) Commissioning	8,650	8,450
- Funded Nursing Care (FNC) Funding	4,150	5,850
<b>Total - Funding identified within Section 256 Agreement</b>	<b>12,800</b>	<b>14,300</b>

# Notes to the Comprehensive Income and Expenditure Statement



Funding identified within the Agreements, by parties, are as follows:

	2016/17 £000	2017/18 £000
<b>Section 75 Agreement:</b>		
- Funding from North Somerset Council	2,116	<b>2,116</b>
- Funding from Department for Communities and Local Government	1,632	<b>5,540</b>
- Funding from Department of Health	7,487	<b>7,459</b>
- Funding from North Somerset Clinical Commissioning Group	6,729	<b>6,830</b>
	17,964	<b>21,945</b>
<b>Section 256 Agreement:</b>		
- Funding from North Somerset Clinical Commissioning Group	12,800	<b>14,300</b>
<b>Total</b>	30,764	<b>36,245</b>

Expenditure included within the Council's Comprehensive Income and Expenditure Account includes £11.294m (2016/17 £9.248m) in respect of the direct costs incurred for social care activities, in areas such as staffing and contracted services, as well the indirect expenditure incurred on the provision of Disabled Facilities Grants initially charged through the capital programme.

Any additional costs incurred for health related functions in excess of the £14.300m (2016/17 £12.800m) identified within the Section 256 agreement remain the liability of the North Somerset Clinical Commissioning Group with any such balances being reflected within the Council's balance sheet. Similarly, any surplus balances remaining where expenditure has been lower than the estimated funding provision given, will be returned after the year-end.

## 22. Business Rate Arrangements

### 22.1 City Region Deal

#### Background

Under the City Region Deal, Bristol City, Bath & North East Somerset, North Somerset and South Gloucestershire councils ("the Authorities") are part of a Business Rates Retention Scheme, introduced by the government in April 2013 which allowed authorities to retain a proportion of the business rates collected locally.

The Authorities are allowed to retain 100% of the growth in business rates raised in the City Region's network of Enterprise Areas over a 25 year period ending on 31/3/2039, to create an Economic Development Fund for the West of England and to manage local demographic and service pressures arising from economic growth.

A 'baseline' level of rates for each Authority has been agreed with the government for the areas designated within the Non-Domestic Rating (Designated Areas) Regulations 2014. Rates collected up to this figure (the baseline) are subject to the national rates retention system. Rates collected in excess of this figure (the 'growth figure') are retained by the Authorities under the Non-Domestic Rates Designated Area Regulations 2013 and 2014 in a pooling arrangement. The governance of the distribution of retained pooled funds occurs through a City Deal Business Rates Pooling Board, constituted under the Business Rates Pooling Principles Agreement (BRPPA) signed by the four Authorities.

#### Transactions

Each participating council pays an annual growth figure to South Gloucestershire Council, as the Accountable Body for the BRP, representing business rates collected in the Enterprise Areas in excess of an agreed baseline figure. Retained funds will be distributed or invested annually in accordance with the 2014 Regulations and the BRPPA as:

# Notes to the Comprehensive Income and Expenditure Statement



- Tier 1: to ensure that no individual council is any worse off than it would have been under the national local government finance system,
- Tier 2: to an Economic Development Fund (EDF) for reinvestment within the designated areas through approved programmes,
- Tier 3: for the relief of demographic and service pressures associated with growth.

Cash receivable and disbursements payable by the BRP and the Council's share of these are reflected under "Cash Transactions" in the table below. The Expenditure and Revenue recognised in the Council's CIES is disclosed under "Expenditure & Revenue" in the table below:

	CASH TRANSACTIONS		EXPENDITURE & REVENUE	
	Business Rates Pool Total £000	of which the Council's Share £000	Council Expenditure £000	Council Revenue £000
Funds held by BRP at 1 April	(13,623)	(2,688)	0	0
Analysed between:				
- Uncommitted cash (Tier 2 including contingency)	(10,324)	(2,037)		
- Committed cash not yet allocated	(3,299)	(651)		
Receipts into the Pool in-year:				
- Growth sums payable by councils to BRP in-year	(16,084)	(2,029)	1,343	0
Distributions out of the Pool in-year:				
- Tier 1 no worse off	5,949	998	0	(998)
- BRP management fee	37	9	0	0
- EDF management fee	64	16	0	0
- Tier 2 EDF funding	1,705	160	0	(174)
- Tier 3 demographic and service pressures	1,624	160	0	(209)
Total Distributions out of the Pool in-year	9,379	1,343		
<b>Funds held by BRP at 31 March</b>	<b>(20,328)</b>	<b>(3,374)</b>		
Analysed between:				
- Uncommitted cash (Tier 2 including contingency)	(16,731)	(2,785)	748	n/a
- Committed cash not yet allocated	(3,597)	(589)	(62)	n/a
	<b>(20,328)</b>	<b>(3,374)</b>		
<b>Expenditure / (Revenue) recognised</b>			<b>2,029</b>	<b>(1,381)</b>

Growth paid over to the BRP is recognised as expenditure by each council to the extent that the use of the funds by the BRP has been incurred. Any remaining cash is recognised by each council as a debtor.

The BRP has made several payments totalling £1.705m on behalf of the EDF (2016/17 £2.144m), of which the Council received £0.174m (2016/17 £0.050m).

The uncommitted and unallocated cash of £3.374m (2016/17 £2.689m) contributed by the Council and held by the BRP is recognised by the Council as a debtor and is held in an earmarked reserve to smooth the impact of City Region Deal

# Notes to the Comprehensive Income and Expenditure Statement



transactions, and match the release of revenue support and charges for projects. The differences between the cash sums paid by the Council of £2.029m (2016/17 £2.052m) and the expenditure recognised of £1.343m (2016/17 £1.565m) is equivalent to the £0.686m (2016/17 £0.487m) increase in uncommitted and unallocated funds included in reserves.

Under the terms of the EDF agreement, annual EDF payments from the business rates pool will only be made subject to there being sufficient cash held in the Fund in the relevant year, and will be pro-rated in the event of a shortfall. Until the EDF payments become physically due each year, the cash is retained in the business rates pool and held as "Committed Cash not yet allocated". These allocations will fluctuate significantly as overall levels of cash in the Fund change and as additional EDF-funded projects are approved. EDF income to the Council in respect of future year payments from the EDF is not considered sufficiently certain in terms of timing or amount to recognise a debtor at year end, and therefore is contingent. Based on the current cash held and status of approved schemes, the contingent future allocation of the committed cash to the Council is £0.589m (2016/17 £0.651m), of the total £3.597m (2016/17 £3.299m) committed pool balance.

The Council itself has recognised revenue income of £1.381m (2016/17: £1.261m) from the BRP and expenditure of £1.343m (2016/17 £1.565m) to the BRP for the year.

## 23. Related party transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central Government has effective control over the general operations of North Somerset Council – it is responsible for providing the statutory framework within which the Council operates. It provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills and award of housing benefit).

Details of grants received from Government departments and carried in the Balance Sheet at 31 March 2018 are shown in Note 14. Short term debtor and creditor balances with Government bodies are shown in Notes 27 and 28.

### Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 17.

All Members, together with the Council's Corporate Management Team, are required to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the financial year. The Head of Finance and Property, in conjunction with the Monitoring Officer, has reviewed the returned declarations. At the time of completing the accounts one Councillor had been unable to return their declaration due to ill health.

During 2017/18, services to the value of £280k (2016/17 £169k) were commissioned from one company in which a member had an interest. Contracts were entered into in full compliance with the Council's standing orders.

Details of Members interests are recorded in the Register of Members' Interest, open to public inspection by appointment at the Town Hall, and on the Council's website:

<http://www.n-somerset.gov.uk/my-council/councillors/councillor/membersinterests/members-interests/>

# Notes to the Comprehensive Income and Expenditure Statement



## Pension Funds

The details of the contributions made by the Council to the Avon Pension Fund are provided in Note 35, and Teachers' Pensions in Note 34

## West of England Partnership

Four unitary authorities - Bath & North East Somerset Council, Bristol City Council, North Somerset Council and South Gloucestershire Council - continue to work together and co-ordinate high level planning to improve the quality of life of their residents and provide for a growing population. This joint work focuses on activities that are better planned at the West of England level, rather than at the level of the individual council areas.

The partnership is not a partnership in law, nor a formal decision making body, and does not have the power to bind the four unitaries. The partnership's activity is integrated into the West of England Local Enterprise Partnership (LEP), which promotes economic growth and prosperity through its key themes of Place, People and Business.

## Other partnerships

The Council is a major partner in the West of England City Region Deal, details of which are disclosed in Note 22.

The authority has a Section 75 agreement in respect of Better Care Funding, and a Section 256 agreement in respect of Free Nursing and Continuing Health Care, with the North Somerset Clinical Commissioning Group. Income and expenditure are detailed in Note 21.

## Other Public Bodies

The Council has an approved collaboration agreement with Bath and North East Somerset Council (B&NES) to further consider opportunities to work together or share services to help deliver greater efficiencies and improved resilience. In line with the Council's direction of travel, the co-operation agreement with B&NES recognises the early progress made by the two Councils but does not preclude opportunities for working more closely with other councils where there are benefits in doing so.

Any significant transactions with other public bodies (e.g. Parish Precepts) are disclosed elsewhere within this Statement of Accounts.

## Entities controlled or significantly influenced by the Council

The Council is the owner of a company, Wyvern SW Limited, a private limited company which was incorporated on 9 October 2017, with a share capital of 100 ordinary shares of £1 each. The primary aim of Wyvern SW Ltd is the development of building projects to facilitate economic growth in North Somerset.

During 2017-18 the following Council officers held the following positions: Director - David Carter (Director of Development and Environment); Company Secretary - Malcolm Coe (Head of Finance & Property). The company has yet to commence trading and therefore the Council had no significant transactions with this company during the year.

# Notes to the Balance Sheet



## 24. Property, Plant and Equipment and Intangibles

### 24.1 Movements on Balances

Movements in 2017/2018	Land & Buildings £000	Infrastructure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Total Property, Plant & Equip. £000	Intangible Assets £000	TOTAL £000
<b>Cost or Valuation</b>								
At 1 April 2017	255,008	200,409	6,058	36,816	10,832	509,123	500	<b>509,623</b>
Additions	10,782	11,880	35	1,172	4,675	28,544	0	<b>28,544</b>
Revaluations - Revaluation Reserve	(1,413)	0	0	0	0	(1,413)	0	<b>(1,413)</b>
Revaluations - CI&ES	(483)	0	0	0	0	(483)	0	<b>(483)</b>
Derecognition - Disposals	(64,524)	0	0	(2,539)	0	(67,063)	0	<b>(67,063)</b>
Reclassified (to) / from Held for Sale and/or Investment Property	(649)	0	0	0	0	(649)	0	<b>(649)</b>
<b>At 31 March 2018</b>	<b>198,721</b>	<b>212,289</b>	<b>6,093</b>	<b>35,449</b>	<b>15,507</b>	<b>468,059</b>	<b>500</b>	<b>468,559</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1 April 2017	(14,101)	(70,593)	(1,630)	(23,147)	0	(109,471)	(100)	<b>(109,571)</b>
Depreciation for the year	(6,757)	(5,015)	(32)	(2,505)	0	(14,309)	(50)	<b>(14,359)</b>
Depreciation written out - Revaluation Reserve	15,088	0	0	0	0	15,088	0	<b>15,088</b>
Impairment (Losses) / Reversals - Revaluation Reserve	(51)	0	0	0	0	(51)	0	<b>(51)</b>
Impairment (Losses) / Reversals - CI&ES	(752)	(6,229)	(35)	0	0	(7,016)	0	<b>(7,016)</b>
Derecognition - Disposals	1,255	0	0	2,342	0	3,597	0	<b>3,597</b>
<b>At 31 March 2018</b>	<b>(5,318)</b>	<b>(81,837)</b>	<b>(1,697)</b>	<b>(23,310)</b>	<b>0</b>	<b>(112,162)</b>	<b>(150)</b>	<b>(112,312)</b>
<b>Net Book Value at 1 April 2017</b>	<b>240,907</b>	<b>129,816</b>	<b>4,428</b>	<b>13,669</b>	<b>10,832</b>	<b>399,652</b>	<b>400</b>	<b>400,052</b>
<b>Net Book Value at 31 March 2018 - Current Value</b>	<b>193,403</b>	<b>130,452</b>	<b>4,396</b>	<b>12,139</b>	<b>15,507</b>	<b>355,897</b>	<b>350</b>	<b>356,247</b>
<b>Net Book Value at 31 March 2018 - Historic Cost Value</b>	<b>112,787</b>	<b>130,452</b>	<b>3,190</b>	<b>12,139</b>	<b>15,507</b>	<b>274,075</b>	<b>350</b>	<b>274,425</b>

# Notes to the Balance Sheet



	Land & Buildings £000	Infrastructure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Total Property, Plant & Equip. £000	Intangible Assets £000	TOTAL £000
<b>Movements in 2016/2017</b>								
<b>Cost or Valuation</b>								
At 1 April 2016	304,693	177,405	5,962	28,777	5,645	522,482	500	<b>522,982</b>
Additions	9,621	23,004	41	8,240	5,187	46,093	0	<b>46,093</b>
Revaluations - Revaluation Reserve	513	0	55	0	0	568	0	<b>568</b>
Revaluations - CI&ES	2,327	0	0	0	0	2,327	0	<b>2,327</b>
Derecognition - Disposals	(62,145)	0	0	(201)	0	(62,346)	0	<b>(62,346)</b>
<b>At 31 March 2017</b>	<b>255,009</b>	<b>200,409</b>	<b>6,058</b>	<b>36,816</b>	<b>10,832</b>	<b>509,124</b>	<b>500</b>	<b>509,624</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1 April 2016	(25,381)	(59,907)	(1,567)	(21,249)	0	(108,104)	(50)	<b>(108,154)</b>
Depreciation for the year	(8,992)	(4,462)	(32)	(2,079)	0	(15,565)	(50)	<b>(15,615)</b>
Depreciation written out - Revaluation Reserve	20,333	0	0	0	0	20,333	0	<b>20,333</b>
Impairment (Losses) / Reversals - Revaluation Reserve	(77)	0	0	0	0	(77)	0	<b>(77)</b>
Impairment (Losses) / Reversals - CI&ES	(8)	(6,224)	(30)	0	0	(6,262)	0	<b>(6,262)</b>
Derecognition - Disposals	23	0	0	182	0	205	0	<b>205</b>
<b>At 31 March 2017</b>	<b>(14,102)</b>	<b>(70,593)</b>	<b>(1,629)</b>	<b>(23,146)</b>	<b>0</b>	<b>(109,470)</b>	<b>(100)</b>	<b>(109,570)</b>
<b>Net Book Value at 1 April 2016</b>	<b>279,312</b>	<b>117,498</b>	<b>4,395</b>	<b>7,528</b>	<b>5,645</b>	<b>414,378</b>	<b>450</b>	<b>414,828</b>
<b>Net Book Value at 31 March 2017 - Current Value</b>	<b>240,907</b>	<b>129,816</b>	<b>4,429</b>	<b>13,670</b>	<b>10,832</b>	<b>399,654</b>	<b>400</b>	<b>400,054</b>
<b>Net Book Value at 31 March 2017 - Historic Cost Value</b>	<b>183,450</b>	<b>117,498</b>	<b>3,180</b>	<b>7,528</b>	<b>5,645</b>	<b>317,301</b>	<b>450</b>	<b>317,751</b>

# Notes to the Balance Sheet



## 24.2 Revaluations

The Council carries out a rolling programme of valuations, with revaluations undertaken at least every 5 years, ensuring that all Property, Plant and Equipment required to be measured at current value is revalued sufficiently regularly to ensure that their carrying amount is not materially different from their carrying value at the year-end. This process also allows for any significant operational or accounting changes to be reflected in current valuations.

Similarly, assets recorded within the Investment Property and Held for Sale categories are subject to a revaluation review on an annual basis to ensure that their carrying values are reflective of the latest market value conditions. The basis for all of the Council's valuations are set out in the Accounting Policies.

All valuations are arranged by the Council's Property Estates and Regeneration Manager, who is A.R.I.C.S. qualified. The revaluations undertaken in 2017/18 have been carried out by professionally qualified staff from within the Council's in-house team, and were applied with a revaluation date of 1 January 2018. In addition, these specialists continue to review the asset portfolio where revaluations have not been undertaken at the year end, considering the impact of valuation indices and cost factors relevant to the local area, and comparing these to the carrying values of assets held in the Asset Register.

The table below reflects the current value of the assets valued in each of the five years, together with those assets carried at historic cost.

	Land & Buildings £000	Infrastructure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Total Property, Plant & Equip. £000	Investment Properties £000	Heritage Assets £000	Intangible Assets £000
Valued at Historical Cost	832	130,452	1,656	12,139	15,507	160,586	40,172	0	350
Valued at Current Value in year									
2017/18	91,590	0	0	0	0	91,590	16,230	0	0
2016/17	81,114	0	715	0	0	81,829	0	0	0
2015/16	3,287	0	586	0	0	3,873	0	0	0
2014/15	16,574	0	953	0	0	17,527	0	0	0
2013/14	6	0	0	0	0	6	0	0	0
2012/13 or prior	0	0	486	0	0	486	0	288	0
<b>Total</b>	<b>193,403</b>	<b>130,452</b>	<b>4,396</b>	<b>12,139</b>	<b>15,507</b>	<b>355,897</b>	<b>56,402</b>	<b>288</b>	<b>350</b>

As can be seen, the majority of the Council's Land & Buildings assets are held at carrying value, with a small proportion held at Historical cost. These are either recently acquired asset purchases or newly built assets transferred in from the Assets Under Construction category, and they will be incorporated into the annual rolling revaluation programme, but for 2017/18 have been reviewed by the professional valuation staff to ensure that the asset values are not materially mis-stated, and will not be subject to material impairment when revalued.

# Notes to the Balance Sheet



## 24.3 Disposal of Non-Current Assets

### Academy Schools

During the year nineteen primary schools transferred from the Council's control to Academy status which means that the school assets were written out of the accounts and reflected as a disposal. All such asset disposals are reflected at nil consideration resulting in a loss being charged to the Council's Comprehensive Income and Expenditure Statement.

	Date of Conversion	Net Book Value 1 April 2017 £000
Ashcombe Primary School	01 September 2017	4,768
Backwell Primary School	01 February 2018	983
Becket Primary School	01 September 2017	2,690
Bournville Primary School	01 October 2017	9,729
Christ Church Primary School	01 September 2017	839
Grove Primary School	28 March 2018	2,937
Hannah More Primary School	28 March 2018	2,904
Hutton CofE Primary School	01 September 2017	2,051
Locking Primary School	01 October 2017	3,886
Mead Vale Primary School	01 February 2018	3,307
Milton Park Primary School	01 October 2017	4,172
Northleaze Primary School	01 February 2018	2,723
Oldmixon Primary School	01 October 2017	2,664
St Martins Primary School	01 September 2017	3,043
St Nicholas Chantry Primary School	01 February 2018	4,529
Walliscote Primary School	01 October 2017	2,347
West Leigh School	01 February 2018	1,586
Windwhistle Primary School	01 October 2017	4,317
Worle Village Primary School	01 September 2017	1,137
		60,616

Other assets disposed of during the year were not material.

## 25. Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

	2016/17 £000	2017/18 £000
Balance at 1 April	17,332	17,509
Additions	0	40,172
Disposals	0	(869)
Net gains / (losses) from fair value adjustments	177	(409)
<b>Balance at 31 March</b>	17,509	56,403

# Notes to the Balance Sheet



The significant increase in year relates to the acquisition of the North Worle District Centre in Worle, which is the first asset arising from the councils' commercial investment programme.

Gains or losses arising from changes in the fair value of the investment property are recognised in the Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Details of the fair value of the Council's investment properties for the 2017/18 financial year are as follows. There were no transfers between the levels during the year:

	Fair Value 31 March 2017			Fair Value 31 March 2018		
	Other significant observable inputs	Significant unobservable inputs	Total	Other significant observable inputs	Significant unobservable inputs	Total
	Level 2 £000	Level 3 £000	£000	Level 2 £000	Level 3 £000	£000
Smallholdings	2,761	7,611	10,372	2,158	7,015	9,173
Commercial Units	1,142	5,995	7,137	41,449	5,781	47,230
<b>Total</b>	<b>3,903</b>	<b>13,606</b>	<b>17,509</b>	<b>43,607</b>	<b>12,796</b>	<b>56,403</b>

Shown below is a reconciliation of the fair value measurements in respect of Level 3 valuations.

	2016/17 £000	2017/18 £000
Balance at 1 April	13,679	13,606
Net gains / losses from fair value adjustments	(73)	(810)
<b>Balance at 31 March</b>	<b>13,606</b>	<b>12,796</b>

## Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

### Significant Observable Inputs - Level 2 Fair Value Investment Property Assets

Six of the commercial properties and five of the smallholdings have been categorised as level 2 in the fair value hierarchy, with their fair value being measured using a combination of the market approach and the income approach. The market approach uses comparable market evidence in arriving at values, whilst the income approach uses an all risk yield to capitalise the income, to arrive at the value. This yield is based on comparable market yields. These investment properties are categorised as Level 2 in the fair value hierarchy as the measurement technique uses inputs that are observable for the asset, either directly or indirectly, and there is no reasonably available information that indicates the market participants would use different assumptions.

### Significant Unobservable Inputs - Level 3 Fair Value Investment Property Assets

Four of the commercial units and two smallholdings have been categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

# Notes to the Balance Sheet



They are measured using a combination of the market approach and the income approach. The market approach uses comparable market evidence in arriving at values, whilst the income approach uses an all risk yield to capitalise the income to arrive at the value. The yield is based on comparable market yields.

## Highest and Best Use of Investment Property Assets

In estimating the fair value of the Council's investment properties, the 'highest and best use' of the properties is not the current value in use for two of the smallholdings; Locking Head Cottage Farm and Locking Head Farm. Parts of both of these farms has been allocated for development as part of the Parklands Village development area. The highest and best value for these properties reflects this future development potential. However, these properties are not currently held at their highest and best use values, as they are subject to protected tenancies.

## Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

## Valuation Process

The fair value of the authority's investment properties is measured annually at each reporting date. All of the investment property valuations were carried out internally in accordance with the Royal Institution of Chartered Surveyors Red Book. The authority's valuation experts work closely with finance officers reporting directly to the Chief Financial Officer on a regular basis regarding all valuation matters.

	Fair Value 31 March 2018 £000	Valuation Technique Used to Measure Fair Value	Unobservable Inputs	Range (weighted average)	Sensitivity
Commercial Units	5,781	Combination of income and market approach	Yield Rate % of MV attributable to Land Discount Rate	5% - 6.75% 87% - 100% 6% to 7%	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets
Smallholdings	7,015	Combination of income and market approach	Discount Rate Development Land Values Deferment Period	5% £90k per acre 7 - 10 years	
<b>Total</b>	<u>12,796</u>				

# Notes to the Balance Sheet



## 26. Capital Expenditure and Financing

The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2016/17 £000	2017/18 £000
<b>Opening Capital Financing Requirement</b>	131,563	134,777
<b>Capital Investment in Year</b>		
Property, Plant and Equipment	46,093	28,544
Investment Properties	0	40,172
Revenue Expenditure Funded from Capital Under Statute	8,151	9,774
	<u>54,244</u>	<u>78,490</u>
<b>Source of Finance</b>		
Capital Receipts and Reserves	(2,917)	(6,425)
Government Grants and Contributions	(38,841)	(25,576)
Revenue Provisions and Reserves	(1,754)	(1,752)
Minimum Revenue Provision and Voluntary Set Aside	(7,518)	(4,925)
	<u>(51,030)</u>	<u>(38,678)</u>
<b>Net Increase / (Decrease) in Capital Financing Requirement</b>	3,214	39,812
<b>Closing Capital Financing Requirement</b>	<u>134,777</u>	<u>174,589</u>
<b>Explanation of movement in year:</b>		
Increase in underlying need to borrow unsupported by Government assistance	10,732	44,737
Minimum Revenue Provision and Voluntary Set Aside	(7,518)	(4,925)
	<u>3,214</u>	<u>39,812</u>

The Minimum Revenue Provision shown above comprises:

	2016/17 £000	2017/18 £000
Supported Borrowing Minimum Revenue Provision	(3,375)	(900)
Prudential Borrowing Minimum Revenue Provision	(3,489)	(3,434)
Ex-Avon Loan Debt Minimum Revenue Provision	(601)	(577)
Finance Leases Minimum Revenue Provision	(53)	(14)
	<u>(7,518)</u>	<u>(4,925)</u>

# Notes to the Balance Sheet



## 27. Debtors

	2016/17 £000	2017/18 £000
Central Government Bodies	4,863	<b>4,402</b>
Other Local Authorities	11,090	<b>2,812</b>
NHS Bodies	1,001	<b>2,995</b>
Public Corporations and Trading Funds	326	<b>51</b>
Academies	287	<b>352</b>
Other Entities and Individuals	18,536	<b>14,056</b>
<b>Total Short Term Debtors</b>	<b>36,103</b>	<b>24,668</b>
Prepayments	7,117	<b>6,922</b>
<b>Total Short Term Debtors and Prepayments</b>	<b>43,220</b>	<b>31,590</b>

## 28. Creditors

	2016/17 £000	2017/18 £000
Central Government Bodies	(3,191)	<b>(12,379)</b>
Other Local Authorities	(5,558)	<b>(3,438)</b>
NHS Bodies	(428)	<b>(303)</b>
Public Corporations and Trading Funds	(10)	<b>(24)</b>
Academies	(6)	<b>0</b>
Other Entities and Individuals	(29,517)	<b>(28,934)</b>
<b>Total Short Term Creditors</b>	<b>(38,710)</b>	<b>(45,078)</b>
Finance lease obligations due within 12 months	(13)	<b>(9)</b>
<b>Total Short Term Creditors including finance lease obligations</b>	<b>(38,723)</b>	<b>(45,087)</b>

# Notes to the Balance Sheet



## 29. Provisions

Provisions are amounts set aside by the Council for an obligation which are likely to lead to a payment, but where the exact amount and timing of the payment is uncertain.

	Balance 1 April 2017 £000	Additional Provisions Made £000	Amounts Used & Reversed £000	Balance 31 March 2018 £000
Insurance Provisions	(1,700)	(687)	623	<b>(1,764)</b>
NNDR Appeals Provision	(1,511)	(2,687)	1,511	<b>(2,687)</b>
Severance Cost Provision	(482)	0	473	<b>(9)</b>
Other	(538)	(125)	56	<b>(607)</b>
<b>Total Provisions</b>	<b>(4,231)</b>	<b>(3,499)</b>	<b>2,663</b>	<b>(5,067)</b>
<b>Expected future timing of associated outflows of economic benefit:</b>				
Less than 1 year	(2,683)			<b>(3,528)</b>
Over 1 year, less than 5 years	(1,239)			<b>(1,307)</b>
Over 5 years	(308)			<b>(232)</b>
	<b>(4,230)</b>			<b>(5,067)</b>

<b>Significant provisions</b>	<b>Description</b>
Insurance Provisions	To finance the estimated costs of known insurance claims, where uncertainties remain over the timing or amounts of likely settlements.
NNDR Appeals Provision	To finance the estimated costs of known NNDR appeals which have been lodged with the Valuation Office, where uncertainties remain over the timing or amounts of likely settlements. The provision is based on the number of appeals received, and an estimate of the likelihood of success of the appeals.
Severance Provision	To finance the estimated severance costs relating to known decisions made prior to Balance Sheet date to terminate officers' employment, where uncertainties remain over the timing or amounts of likely settlements. The provision is based on the estimated entitlement to severance payments earned by the employees affected by the decisions under their terms and conditions of employment.

# Notes to the Balance Sheet



## 30. Contingent Liabilities

### National Non Domestic Rating – Unlodged Appeals

The Council has made a provision for its best estimate of the cost of unlodged NNDR appeals made to the Valuation Office – see Provisions Note 29 . However, there remains uncertainty over any obligation arising future appeals not yet received, including the level of such appeals that may be made, how many appeals would be successful, the rateable value of the appealed property or the value of payments that would be made to successful appellants. The value of any such appeals not provided for is not considered likely to be to be material.

### National Non Domestic Rating - NHS Charities

A number of NHS Trusts have submitted claims that they should be treated as charities for the purpose of Business Rates. Whilst North Somerset has not received a claim, there is a high probability that if a claim elsewhere is successful then those Trusts that have not yet submitted a claim will do so.

If the Hospital Trusts and Ambulance Service Trusts that operate within North Somerset were to submit claims for charitable relief which were successful, it is expected that the claims would be backdated to 1 April 2010 and would cost North Somerset Council £2m.

The NHS claim for charitable status is currently being considered by the courts. The length of this process is unknown.

In addition, a private members bill has been proposed to make NHS properties exempt from paying business rates. If passed into legislation, have the same impact to the claim for charitable status.

# Notes to the Balance Sheet



## 31. Financial Instruments

### 31.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
<b>Financial Assets</b>				
<b>Investments</b>				
Loans and receivables	0	0	75,709	56,150
Available-for-sale financial assets	4,602	9,698	0	0
Unquoted equity investment at cost	50	50	0	0
<b>Total Investments</b>	<b>4,652</b>	<b>9,748</b>	<b>75,709</b>	<b>56,150</b>
<b>Debtors</b>				
Loans and receivables	1,220	3,037	0	0
Financial assets carried at contract amounts	0	0	13,698	10,782
<b>Total Debtors</b>	<b>1,220</b>	<b>3,037</b>	<b>13,698</b>	<b>10,782</b>
Cash and cash equivalents	0	0	3,398	3,236
<b>Total Financial Assets</b>	<b>5,872</b>	<b>12,785</b>	<b>92,805</b>	<b>70,168</b>
<b>Financial Liabilities</b>				
<b>Borrowings</b>				
Financial Liabilities held at amortised cost	(118,405)	(148,305)	(21,550)	(643)
<b>Creditors</b>				
Financial Liabilities carried at contract amount	0	0	(13,618)	(16,468)
<b>Total Financial Liabilities</b>	<b>(118,405)</b>	<b>(148,305)</b>	<b>(35,168)</b>	<b>(17,111)</b>

Not all short term debtors and creditors fall within the definition of "financial instruments". The difference between the totals shown on the Balance Sheet and the values shown above is as follows:

	2016/17		2017/18	
	Debtors £000	Creditors £000	Debtors £000	Creditors £000
Total Short Term Debtors / Creditors on Balance Sheet	43,220	(38,723)	31,590	(45,087)
Statutory & Government Debtors / Creditors	(22,406)	10,632	(13,886)	9,736
Provision for Accumulated Absences	0	2,136	0	1,334
Payments / Receipts in Advance	(7,116)	5,776	(6,922)	10,905
Bonds and Deposits	0	6,548	0	6,635
Short Term Finance Lease Liabilities	0	13	0	9
Total Short Term Debtors / Creditors in Note 31.1	<b>13,698</b>	<b>(13,618)</b>	<b>10,782</b>	<b>(16,468)</b>

# Notes to the Balance Sheet



## 31.2 Income, Expense, Gains and Losses

	2016/17			2017/18		
	Financial Assets		Financial Liabilities	Financial Assets		Financial Liabilities
	Loans and receivables	Available for sale assets	Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Liabilities measured at amortised cost
	£000	£000	£000	£000	£000	£000
Interest expense	0	0	5,931	0	0	6,110
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	0	0	5,931	0	0	6,110
Interest income	(1,007)	(245)	0	(632)	(422)	0
<b>Total income in Surplus or Deficit on the Provision of Services</b>	(1,007)	(245)	0	(632)	(422)	0
Net Losses / (Gains) on revaluation	0	147	0	0	(94)	0
<b>Surplus / Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	0	147	0	0	(94)	0
<b>Net (Gain) / Loss for the Year</b>	<b>(1,007)</b>	<b>(98)</b>	<b>5,931</b>	<b>(632)</b>	<b>(516)</b>	<b>6,110</b>

# Notes to the Balance Sheet



## 31.3 Fair Values of Assets and Liabilities

The fair value of financial assets is shown below:

	Fair Value Level	31 March 2017		31 March 2018	
		Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<b>Investments</b>					
<i>Available for sale financial assets:</i>					
Bonds, equity and property funds	1	4,602	4,602	9,696	9,696
<i>Loans and receivables:</i>					
Shares in unlisted company	3	50	50	50	50
Other financial assets for which fair value is not materially different from carrying value:					
Short-term investments	2	75,709	75,709	56,150	56,150
Short-term debts	N/A	13,698	13,698	10,782	10,782
Long-term investments	2	0	0	2	2
Long-term debtors	2	1,220	1,220	3,037	3,037
Cash and cash equivalents	1	3,398	3,398	3,236	3,236
<b>Total Financial Assets</b>		<b>98,677</b>	<b>98,677</b>	<b>82,953</b>	<b>82,953</b>

### Level 2 Fair Value Assets

These assets relate largely to short term assets, long term bank deposits and long term debtors. Their fair value is calculated at cost, amortised at their effective interest rate. This is not materially different from their carrying value.

### Level 3 Fair Value Assets

The Council has a shareholding in The Local Capital Finance Company, representing less than 1% of the company's capital. The company was formed in February 2014 and, as such, has no established trading history. The shares in this company are not traded in an active market. There are no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The shares are carried at a cost of £50k, as a fair value cannot be reliably measured. There have been no changes in the estimated fair value of this investment during the year. The Council has no current intention of disposing of this shareholding.

# Notes to the Balance Sheet



The fair value of Financial Liabilities is shown below:

		31 March 2017		31 March 2018	
	Fair Value Level	Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<b>Financial Liabilities</b>					
<i>Financial Liabilities held at amortised cost:</i>					
Long term borrowing from PWLB	2	(118,405)	(155,495)	<b>(148,305)</b>	<b>(180,991)</b>
Other current financial liabilities for which fair value is not materially different from carrying value					
Short term borrowing	2	(21,550)	(21,550)	<b>(643)</b>	<b>(643)</b>
Short term creditors	N/A	(13,618)	(13,618)	<b>(16,468)</b>	<b>(16,468)</b>
<b>Total Financial Liabilities</b>		<b>(153,573)</b>	<b>(190,663)</b>	<b>(165,416)</b>	<b>(198,102)</b>

## Level 2 Fair Value Liabilities

The fair value of the Council's long term PWLB borrowing uses observed rates of return for comparable replacement liabilities. The fair value of this borrowing is higher than its carrying value in the accounts as the Council's portfolio of loans comprises fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date.

The Council's short term financial liabilities are carried at cost, as this is a fair approximation of their value.

# Notes to the Balance Sheet



## 32. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments as they fall due
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates, and stock market movements.

The Council's Treasury Management Strategy are updated each year and approved by elected members. The Strategy mitigates credit risk by requiring that deposits are only made with financial institutions that meet minimum credit scores, and by setting limits to restrict the total amounts invested with individual counter-parties at any one time. Both the in-house treasury team and the Council's external cash managers have a range of counter-party limits which are linked to both the length of the investment placed and the organisational credit limits. The only exception to this principle relates to deposits made with the Government's Debt Management Office. No limit is applied, as it is deemed an extremely secure investment.

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers.

The following analysis summarises the Council's maximum exposure to credit risk, based upon experience of default and non-collectability over the last 5 financial years, adjusted to reflect market conditions.

	Amount at 31 March 2018 £000 (A)	Historical experience of default % (B)	Historical experience adj for market conditions % (C)	Estimated max exposure to default and non- collectability £000 (A x C)
<i>Financial Assets - Loans and receivables</i>				
Short term investments	56,152	0.3%	0.3%	179
Long term debtors	3,037	0.0%	0.0%	0
Cash and cash equivalents	3,236	0.0%	0.0%	0
<i>Financial assets carried at Contract Amounts</i>				
Customers (Trade Debtors)	7,190	9.8%	9.8%	703
Other Debtors (Accruals)	3,592	0.0%	0.0%	0
<b>As at 31 March 2018</b>	<b>73,207</b>			<b>882</b>
As at 31 March 2017	94,025			1,463

# Notes to the Balance Sheet



The Council does not generally allow credit for customers, such that all of the trade debtor balance shown above is past its due date, analysed as follows:

	2016/17 £000	2017/18 £000
Less than 30 days	3,277	3,956
30 to 60 days	618	261
Over 60 days	3,379	2,973
<b>Total trade debtors</b>	<b>7,274</b>	<b>7,190</b>

The historical experience of default for banks and financial institutions has been provided by Moody's, one of the credit rating organisations used by the Council. Whilst the current market conditions have raised the overall possibility of default, the Council maintains strict criteria for investment counterparties in order to mitigate this risk wherever possible. Credit limits and ratings are monitored throughout the reporting period, and adjustments made to the Treasury Management Strategy if appropriate.

## Liquidity Risk

As the Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial liabilities. Instead, the risk is that the Council may be bound to replenish its borrowings at a time of unfavourable interest rates. The Council's strategy is to ensure that no more than £8m of loans are due to mature within any one year through a combination of careful planning of the timing of new loans taken out, and (where it is economic to do so) making early repayments.

The maturity analysis of borrowing included in financial liabilities is as follows:

	2016/17			2017/18		
	PWLB £000	Other £000	Total £000	PWLB £000	Other £000	Total £000
Less than one year	5,004	16,546	21,550	100	543	643
Between one and two years	100	0	100	1,000	0	1,000
Between two and five years	5,422	0	5,422	12,922	0	12,922
Between five and ten years	26,761	0	26,761	34,430	0	34,430
More than ten years	86,123	0	86,123	99,953	0	99,953
<b>Total borrowing</b>	<b>123,410</b>	<b>16,546</b>	<b>139,956</b>	<b>148,405</b>	<b>543</b>	<b>148,948</b>

All trade and other payables are due to be paid in less than one year.

## Market risk

### Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. The annual Treasury Management Strategy includes expectations of interest rate movements, and prudential indicators sets maximum limits for fixed and variable interest rate exposure. Movements in interest rates have a complex impact on the Council.

# Notes to the Balance Sheet



For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the interest expense charged to the Surplus or Deficit on the Provision of Services would rise; a 1% increase would result in additional costs of £1.5m (2016/17 £1.4m)
- borrowings at fixed rates – the fair value of the liabilities will fall; a 1% increase in the average interest rate would result in a £9.9m reduction in the fair value (2016/17 £45.5m)
- investments at fixed rates - the interest income credited to the Surplus or Deficit on the Provision of Services would rise; a 1% increase would result in a £0.9m increase in income (2016/17 £0.9m)
- investments at fixed rates – the fair value of the assets would fall; a 1% increase in the average interest rate would result in a £60.6m reduction in the fair value (2016/17 £69.8m).

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

## Price Risk

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices would result in a £0.25m charge to Other Comprehensive Income & Expenditure (2016/17 £0.25m).

The Council also maintains investments in two multi-asset funds of £4m and £1m respectively. Both of these funds hold a diverse portfolio of instruments including equities, properties, and bonds. A 5% fall in share prices would result in a £0.08m charge to Other Comprehensive Income & Expenditure. The council's risk is limited to its maximum exposure of the investment in each of the funds.

As these investments are classified as 'Available for sale', movements in price will impact on gains and losses recognised in 'Other Comprehensive Income and Expenditure', but are subsequently reversed in the Movement in Reserves Statement to the 'Available for sale reserve', and hence do not impact on the General Fund Balance.

### **33. Ex-Avon County Council Debt (Long-Term Liabilities)**

Following Local Government Reorganisation in 1996, the responsibility for administering Avon County Council's outstanding long term debt was transferred to Bristol City Council. All the unitary authorities in the ex-Avon area make annual contributions equivalent to principal and interest towards the long-term debts.

	2016/17 £000	2017/18 £000
North Somerset Council share of Ex-Avon Loan Debt Outstanding	14,425	<b>13,848</b>
Interest Paid in Year	763	<b>731</b>
Debt Repayments - Minimum Revenue Provision	601	<b>577</b>

# Notes to the Balance Sheet



## 34. Pensions Schemes Accounted for as Defined Contribution Schemes

### 34.1 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and the performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18 the Council paid £3.066m to Teachers' Pensions in respect of teachers' retirement benefits (2016/17 £4.692m), representing 16.42% of pensionable pay (2016/17 16.42%). Contributions of £0.189m were payable at the year-end (2016/17 £0.327m). The expected contributions to the plan in 2018/19 are £2.422m.

The Council is also responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 35.3.

## 35. Defined Benefit Pension Schemes

### 35.1 Participation in Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not become payable until the employees retire, the Council has a commitment to make the payments that need to be accounted for at the time that employees earn their future entitlement.

The Council participates in two defined benefit pension schemes:

- the Local Government Pension Scheme, known as the Avon Pension Fund, administered by Bath & North-East Somerset Council. The Avon Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS regulations, which require an actuarial valuation to be carried out every three years.
- arrangements for the award of discretionary post-retirement benefits to teachers upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

# Notes to the Balance Sheet



The total net liability in respect of defined benefit schemes as shown in the Balance Sheet is as follows:

	2016/17			2017/18		
	Funded £000	Unfunded £000	Total £000	Funded £000	Unfunded £000	Total £000
<b>Local Government Pension Scheme</b>						
Present value of the defined benefit obligation	(665,780)	(19,099)	(684,879)	(638,093)	(18,099)	<b>(656,192)</b>
Fair value of plan assets	445,704	0	445,704	447,093	0	<b>447,093</b>
Net liability arising from defined benefit obligation	<u>(220,076)</u>	<u>(19,099)</u>	<u>(239,175)</u>	<b><u>(191,000)</u></b>	<b><u>(18,099)</u></b>	<b><u>(209,099)</u></b>
<b>Unfunded Teachers' Discretionary Benefits</b>						
Present value of the defined benefit obligation	0	(25,220)	(25,220)	0	(23,626)	<b>(23,626)</b>
Net liability arising from defined benefit obligation	<u>0</u>	<u>(25,220)</u>	<u>(25,220)</u>	<b><u>0</u></b>	<b><u>(23,626)</u></b>	<b><u>(23,626)</u></b>
<b>Net liability arising from defined benefit obligation - Total</b>	<b><u>(220,076)</u></b>	<b><u>(44,319)</u></b>	<b><u>(264,395)</u></b>	<b><u>(191,000)</u></b>	<b><u>(41,725)</u></b>	<b><u>(232,725)</u></b>

# Notes to the Balance Sheet



The following transactions have been made in the Comprehensive Income and Expenditure Statement and the general Fund Balance via the Movement in Reserves Statement during the year:

	2016/17			2017/18		
	LGPS	Teachers disc. benefits	Total	LGPS	Teachers disc. benefits	Total
	£000	£000	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>						
<i>Cost of Services:</i>						
- Current Service Cost	12,279	0	12,279	16,093	0	<b>16,093</b>
- (Gains) / Losses from Settlements & Curtailments	(10,248)	0	(10,248)	(15,889)	0	<b>(15,889)</b>
<i>Financing and Investment Income and Expenditure:</i>						
- Net Interest Cost	6,118	822	6,940	5,542	609	<b>6,151</b>
- Administration Expense	255	0	255	227	0	<b>227</b>
Net interest on net defined benefit pension liability & administration costs	6,373	822	7,195	<b>5,769</b>	<b>609</b>	<b>6,378</b>
<b>Net Charge to Surplus or Deficit on Provision of Services</b>	<b>8,404</b>	<b>822</b>	<b>9,226</b>	<b>5,973</b>	<b>609</b>	<b>6,582</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>						
- Return on Plan Assets, excluding the amount included in the net interest expense	(39,227)	0	(39,227)	2,598	0	<b>2,598</b>
- Experience (Gains) / Losses	(35,552)	(1,502)	(37,054)	0	0	<b>0</b>
- Actuarial (Gains) / Losses arising on changes in financial assumptions	133,439	(299)	133,140	(26,028)	(494)	<b>(26,522)</b>
- Actuarial (Gains) / Losses arising on changes in demographic assumptions	(2,328)	2,894	566	0	0	<b>0</b>
Remeasurement of the net defined benefit liability	56,332	1,093	57,425	<b>(23,430)</b>	<b>(494)</b>	<b>(23,924)</b>
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>64,736</b>	<b>1,915</b>	<b>66,651</b>	<b>(17,457)</b>	<b>115</b>	<b>(17,342)</b>
<b>Movement in Reserves Statement</b>						
Reversal of Net charge made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code	(8,404)	(822)	(9,226)	(5,973)	(609)	<b>(6,582)</b>
Actual amount charged against the General Fund Balance for pensions in the year:						
Employers' contributions payable to the scheme	14,350	1,728	16,078	12,619	1,709	<b>14,328</b>

# Notes to the Balance Sheet



## 35.2 Local Government Pension Scheme

The Local Government Pension Scheme is a funded defined benefit scheme based on average pensionable salary. This means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

### Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pension. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

### Reconciliation of Movements in the Fair Value of Scheme (Plan) Assets

	2016/17 £000	2017/18 £000
Opening Fair Value of Scheme Assets	396,673	445,704
Interest Income	13,919	11,110
Administration Expenses	(255)	(227)
Remeasurement Gains / (Losses)		
- The return on plan assets, excluding any amount in the net interest expense	39,227	(2,598)
Employers' Contributions	14,350	12,619
Employee Contributions	3,249	2,938
Settlements	(1,776)	(2,297)
Benefits Paid	(19,683)	(20,156)
<b>Closing Balance at 31 March</b>	<b>445,704</b>	<b>447,093</b>

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2016/17			2017/18		
	Funded £000	Unfunded £000	Total £000	Funded £000	Unfunded £000	Total £000
Opening Balance at 1 April	(566,988)	(18,474)	(585,462)	(665,780)	(19,099)	(684,879)
Current Service Cost	(12,279)	0	(12,279)	(16,093)	0	(16,093)
Interest Cost	(19,409)	(628)	(20,037)	(16,188)	(464)	(16,652)
Contributions by Scheme participants	(3,249)	0	(3,249)	(2,938)	0	(2,938)
Remeasurement Gains / (Losses);						
- Experience Gains / (Losses)	33,817	1,735	35,552	0	0	0
- Gains / (Losses) on financial assumptions	(130,585)	(2,854)	(133,439)	25,613	415	26,028
- Gains / (Losses) on demographic assumption	2,271	57	2,328	0	0	0
Benefits Paid	18,618	1,065	19,683	19,107	1,049	20,156
Settlements / Curtailments	12,024	0	12,024	18,186	0	18,186
<b>Closing Balance at 31 March</b>	<b>(665,780)</b>	<b>(19,099)</b>	<b>(684,879)</b>	<b>(638,093)</b>	<b>(18,099)</b>	<b>(656,192)</b>

# Notes to the Balance Sheet



The accounting effect of the transfers of staff to academies during the year is shown under the settlement figures above.

## Composition of Scheme Assets

	Quoted (Y/N)	2016/17 £000	2017/18 £000
<b>Cash and Cash Equivalents:</b>			
- Cash Accounts	Y	5,348	<b>16,095</b>
<b>Equity Instruments:</b>			
- UK	Y	65,964	<b>63,488</b>
- Global	Y	40,559	<b>119,374</b>
- North America	Y	38,331	<b>0</b>
- Japan	Y	10,251	<b>0</b>
- Europe ex-UK	Y	22,285	<b>0</b>
- Pacific Rim ex-Japan	Y	10,697	<b>0</b>
- Emerging markets	Y	43,679	<b>0</b>
<b>Bonds:</b>			
- UK Government Fixed	Y	0	<b>48,286</b>
- UK Government Indexed	Y	53,484	<b>0</b>
- Sterling Corporate Bonds	Y	35,211	<b>54,545</b>
<b>Property:</b>			
- UK Property Funds	Y	18,720	<b>19,210</b>
- Overseas Property Funds	Y	20,057	<b>20,582</b>
<b>Alternatives:</b>			
- Hedge Funds	Y	24,068	<b>20,566</b>
- Diversified Growth Funds	Y	39,668	<b>59,016</b>
- Infrastructure	Y	17,382	<b>25,931</b>
<b>Closing Balance at 31 March</b>		<b>445,704</b>	<b>447,093</b>

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions including, for example mortality rates and salary levels. The liabilities have been assessed by Mercer Limited, an independent firm of actuaries, providing estimates for the Avon Pension Fund based on the latest full valuation of the scheme as at 31 March 2016. The estimated duration of liabilities (at later of 31 March 2016 and admission date) is 17 years.

# Notes to the Balance Sheet



The main assumptions used in their calculations have been:

	2016/17	2017/18
Rate of CPI inflation	2.3%	2.1%
Rate of increases in salaries	3.8%	3.6%
Rate of increases in pensions	2.3%	2.2%
Rate for discounting scheme liabilities	2.5%	2.6%
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners	Years	Years
Men	23.5	23.6
Women	26.0	26.1
Longevity at 65 for future pensioners in 20 years time	Years	Years
Men	26.0	26.2
Women	28.7	28.8

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period, and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	2016/17	2017/18
<b>Impact of the Defined Benefit Obligation in the Scheme:</b>	£000	£000
Longevity - 1 year increase in life expectancy	13,308	12,751
Rate of inflation - 0.1% increase	11,765	11,272
Rate of increase in salaries - 0.1% pay growth	1,959	1,328
Rate for discounting Scheme Liabilities - 0.1% increase in discounting rate	(11,566)	(11,081)

## Governance and Risk Management

As the administering authority, Bath and North East Somerset Council (B&NES), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations. B&NES delegates its responsibility to the Avon Pension Fund Committee, which is the formal decision making body for the Fund. The Avon Pension Fund Committee is responsible for the Funds' investment, funding, administration and communication strategies. It also monitors the performance of the fund, and approves and monitors compliance of the statutory statements and policies required under the Regulations. The Committee is supported by an Investment Panel, which considers the investment strategy and investment performance in greater depth.

# Notes to the Balance Sheet



## *Impact on the Council's Cash flows*

The Fund targets a pension paid throughout life. The amount of pensions depends on how long employees are active members of the scheme and their salary when they leave the scheme ("final salary scheme") for service up to 31 March 2014, and on revalued average salary ("career average scheme") for service from 1 April 2014.

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation as at 31 March 2016, showed a shortfall of assets against liabilities of £0.80 billion, equivalent to a funding level of 83%.

The Council's contribution rate for 2017/18 was 14.7% (2016/17 14.2%) and, along with other employers in the Fund, is paying additional contributions (equivalent to 11.10% for 2017/18 (2016/17 10.75%) over a period of up to 15 years in order to meet the shortfall. The Council estimates its employer contributions to the Fund for 2018/19 will be £10.414m, including £4.561m (equivalent to 11.85% of pensionable pay) in respect of deficit recovery.

## *Risks and Investment Strategy*

The Avon Pension Fund does not have an explicit asset and liability matching strategy. The primary objective of its investment strategy is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. When setting the investment strategy, the expected volatility of the assets relative to the value placed on the liabilities is measured and taken into account. The aim of the strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative instruments, and uses a number of investment managers. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies, which are reviewed regularly to reflect changes in market conditions. As a result of its investment strategy, the Fund is exposed to a variety of financial risks, including market risk (market price, interest rate and currency risk), credit risk and liquidity risk.

- Market Risk – the objective of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return. Volatility in market risk is managed through diversification across asset class and investment managers.
- Credit Risk – as the market values of investments reflect an assessment of creditworthiness in their pricing, the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.
- Liquidity Risk – the investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities.

Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the authority's cash flow.

# Notes to the Balance Sheet



## 35.3 Unfunded Teachers' Discretionary Benefits

The Council's is responsible for any additional discretionary pension benefits awarded to teachers upon early retirement outside of the terms of the teachers' pension scheme.

### Pension Assets and Liabilities Recognised in the Balance Sheet

The present value of the defined benefit obligation in the Balance Sheet as at 31 March 2018 is £23.6m (31 March 2017 £25.2m). There are no assets associated with the scheme.

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2016/17 £000	2017/18 £000
Opening Balance at 1 April	(25,033)	<b>(25,220)</b>
Interest Cost	(822)	<b>(609)</b>
Remeasurement Gains / (Losses)	(1,093)	<b>494</b>
Benefits Paid	1,728	<b>1,709</b>
<b>Closing Balance at 31 March</b>	<b>(25,220)</b>	<b>(23,626)</b>

### Basis for Estimating Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions include, for example, mortality rates and salary levels. The liabilities have been assessed by Mercer Limited, an independent firm of actuaries, providing estimates for the Avon Pension Fund, based on the latest full valuation of the scheme as at 31 March 2016. The estimated duration of liabilities (at later of 31 March 2016 and admission date) is 10 years.

The main assumptions used in their calculations have been:

	2016/17 £000	2017/18 £000
Rate of CPI inflation	2.3%	<b>2.1%</b>
Rate of increases in pensions	2.3%	<b>2.2%</b>
Rate for discounting scheme liabilities	2.5%	<b>2.6%</b>
Mortality Assumptions		
Longevity at 75 for current pensioners	Years	<b>Years</b>
Men	14.4	<b>14.5</b>
Women	16.5	<b>16.6</b>

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period, and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the

# Notes to the Balance Sheet



sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	2016/17 £000	2017/18 £000
<b>Impact of the Defined Benefit Obligation in the Scheme:</b>		
Longevity - 1 year increase in life expectancy	844	<b>780</b>
Rate of inflation - 0.1% increase	261	<b>246</b>
Rate for discounting Scheme Liabilities - 0.1% increase in discounting rate	(260)	<b>(243)</b>

## Governance and Risk Management

The Teachers' Pension Scheme arrangements are managed centrally by government departments / agencies, and there is no material involvement for the Council.

### *Impact on the Council's Cash flows*

The Scheme targets a pension paid throughout life. The amount of pensions depends on how long employees are active members of the scheme and their salary when they leave the scheme ("final salary scheme") for service up to 31 March 2015, and on revalued average salary ("career average scheme") for service from 1 April 2015.

The Council's involvement is limited to additional discretionary pension benefits to retired teachers which were awarded at the point of retirement.

### *Risks Strategy*

Given their unfunded nature, there are no investment risks in relation to this scheme. The greatest single risk is that the government could change the funding standards relating to the scheme, increasing the Council's contributions.

## **36. Leases**

### **36.1 Authority as Lessee**

#### Finance Leases

The Council has acquired property, vehicles and print room equipment under finance leases. The net book value of these assets, and the related finance lease liabilities included in the Balance Sheet are not material.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2016/17 £000	2017/18 £000
Finance lease liabilities		
- Current	13	<b>9</b>
- non Current	2,245	<b>2,237</b>
Finance costs payable in future years	15,485	<b>15,045</b>
<b>Total</b>	<b>17,743</b>	<b>17,291</b>

# Notes to the Balance Sheet



The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Not later than one year	453	446	13	9
Later than one year and not later than five years	1,750	1,740	10	2
Later than five years	15,540	15,105	2,235	2,234
<b>Total</b>	<b>17,743</b>	<b>17,291</b>	<b>2,258</b>	<b>2,245</b>

## Operating Leases

The Council utilises a number of administrative buildings and its fleet of vehicles by entering into operating leases, with typical lives of five years for vehicles and equipment and 164 years for property. The future minimum lease payments due under non-cancellable leases in future years, and related charges to the Cost of Services in the Comprehensive Income and Expenditure Statement, are not material.

## **36.2 Authority as Lessor**

### Finance Leases

The Council has leased out six former secondary schools and 26 former primary schools to Academies on 125 year finance leases, all at peppercorn rents, which is a statutory requirement for Academies. The Council's gross investment in these leases, is made up as follows:

	2016/17 (Restated) £000	2017/18 £000
Unguaranteed residual value of property	36,773	46,097
<b>Gross investment in the lease</b>	<b>36,773</b>	<b>46,097</b>

## Operating Leases

The Council owns various commercial and investment property that it leases out under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

# Notes to the Balance Sheet



The future minimum lease payments receivable under non-cancellable leases in future years are:

	2016/17 £000	2017/18 £000
Not later than one year	986	3,648
Later than one year and not later than five years	1,705	11,486
Later than five years	6,401	8,665
<b>Total future Minimum Lease Payments receivable</b>	<b>9,092</b>	<b>23,799</b>

The gross value of assets which were held for use in operating leases was £59.841m, valued at 31st March 2018. (31st March 2017: £20.774m).

# Notes to the Cash Flow Statement



## 37. Notes to the Cash Flow Statement

### 37.1 Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements

	2016/17 £000	2017/18 £000
Depreciation and impairment	19,549	21,898
Increase / (decrease) in creditors	(6,341)	2,197
(Increase) / decrease in debtors	6,862	1,596
(Increase) / decrease in inventories	23	0
Movement in Pension liability	(6,852)	(7,746)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	62,142	64,335
Increase / (decrease) in provisions	(1,823)	837
Movements in the value of investment properties	(177)	409
<b>Net adjustments for non-cash movements</b>	<b>73,383</b>	<b>83,526</b>

### 37.2 Adjustments for items included in the surplus / (deficit) on provision of services that are investing and financing activities

	2016/17 £000	2017/18 £000
Capital grants applied to the financing of capital expenditure	(36,433)	(25,372)
Proceeds from the sale of property, plant and equipment, investment property and intangible asset	(3,366)	(4,070)
<b>Net adjustments for investing and financing activities</b>	<b>(39,799)</b>	<b>(29,442)</b>

# Notes to the Cash Flow Statement



## 37.3 Operating Activities

The cash flows for operating activities include the following:

	2016/17 £000	2017/18 £000
Interest received	1,720	1,054
Interest paid	(6,239)	(6,110)

## 37.4 Cash Offsetting Arrangements

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those areas that have been offset in the balance sheet.

	2016/17 £000	2017/18 £000
Cash subject to netting arrangement	10,675	8,705
Overdraft subject to netting arrangement	(8,527)	(6,087)
<b>Net cash subject to netting arrangement</b>	2,148	2,618
Other cash and cash equivalents	1,250	618
<b>Cash and cash equivalents presented in the Balance Sheet</b>	3,398	3,236

# Collection Fund



This account reflects the Council's statutory responsibility as a billing authority to maintain a separate Collection Fund, which shows the transactions in relation to council tax and business rates, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2016/17				2017/18		
Business Rates £000	Council Tax £000	Total £000	Note	Business Rates £000	Council Tax £000	Total £000
	(115,507)	(115,507)			(121,331)	(121,331)
(63,968)		(63,968)	CF1			
(63,968)	(115,507)	(179,475)	CF2	(60,389)		(60,389)
				(60,389)	(121,331)	(181,720)
			<b>Expenditure</b>			
			<u>Apportionment of Previous Years' Surplus</u>			
4,750		4,750		486		486
4,655	927	5,582		476	1,718	2,194
	133	133			242	242
95	51	146		10	92	102
9,500	1,111	10,611		972	2,052	3,024
			<u>Precepts, Demands and Shares</u>			
30,891		30,891		27,955		27,955
30,273	95,570	125,843		28,196	102,061	130,257
	13,478	13,478			14,036	14,036
618	5,136	5,754		575	5,349	5,924
61,782	114,184	175,966		56,726	121,446	178,172
			<u>Charges to Collection Fund</u>			
(385)	(256)	(641)		(776)	(626)	(1,402)
255	486	741	CF3	480	92	572
1,108		1,108		3,189		3,189
262		262		261		261
694		694		527		527
1,934	230	2,164		3,681	(534)	3,147
73,216	115,525	188,741		61,379	122,964	184,343
9,248	18	9,266		990	1,633	2,623
(10,238)	(1,662)	(11,900)		(990)	(1,644)	(2,634)
<b>(990)</b>	<b>(1,644)</b>	<b>(2,634)</b>	CF4	<b>0</b>	<b>(11)</b>	<b>(11)</b>

# Notes to the Collection Fund



## CF1. Council Tax

Under the council tax system, North Somerset Council must collect each year enough money from local residents to cover the cost of the services we provide, which are not funded by other sources such as government grants and fees and charges. We also collect North Somerset's share of the cost of services provided by Avon & Somerset Police, Avon Fire Authority and the Parish and Town Councils, and pass this back to them through a precept payment.

Council tax is payable on any dwelling which is not exempt. The amount of council tax that each household pays depends upon the valuation band in which the property is placed and the Parish or Town in which the dwelling is situated.

In order to set the council tax, we estimate the number of dwellings in each of eight valuation bands and convert these estimates into an "equivalent number of Band D dwellings". The table below shows the calculation for 2017/18.

Valuation Bands	Estimated number of taxable dwellings after effect of exemptions and discounts	Ratio	Equivalent number of Band D dwellings
A - up to £40,000	11,054	6/9	7,369.0
B - £40,001 to £52,000	18,308	7/9	14,239.6
C - £52,001 to £68,000	20,289	8/9	18,035.1
D - £68,001 to £88,000	15,639	9/9	15,638.5
E - £88,001 to £120,000	11,635	11/9	14,220.5
F - £120,001 to £160,000	5,907	13/9	8,532.7
G - £160,001 to £320,000	3,120	15/9	5,200.0
H - over £320,001	205	18/9	409.3
	<b>86,157</b>		<b>83,644.7</b>
Reduction for Council Tax Support Scheme			(6,761.4)
Allowance for Losses on Collection			(622.8)
Allowance for New Properties			943.8
<b>Council Tax Base for 2017/18</b>			<b>77,204.3</b>

The total number of "equivalent Band D dwellings" is divided into the total cost of services to arrive at an "average Band D Tax" per dwelling. Dwellings in bands below "Band D" will pay proportionately less than this average and dwellings in bands above "Band D" will pay proportionately more than this average.

The above calculations resulted in an "average Band D Tax" of £1,573.05 per dwelling (2016/17 £1,510.21) after taking into account Parish variations and providing a 0.80% provision for unpaid bills, movement in council tax support claimants and new build properties not as planned (2016/17 0.80%).

The actual council tax income for 2017/18 was £121.331m, dividing this figure by the "average Band D Tax" results in an actual tax base of 77,470.5 dwellings. The difference between this and the total "equivalent Band D dwellings" of 77,204 reflects:

- Variations in the property market
- Changes in the number of exempt dwellings
- Changes in the number of dwellings qualifying for discounts

# Notes to the Collection Fund



## CF2. National Non-Domestic Rates

Under the Business Rates Retention Scheme, the Council acts as both principal and agent. It is able to retain 49% of the net standard business rates collected within the local area as income within its own budget, as well as 100% of net rates from new properties within designated areas and also those relating to renewable energy schemes (Disregarded Amounts). The Council distributes the remaining net balance of standard business rate income to Central Government, who are allocated 50%, with the final 1% to the Fire Authority.

	2016/17	2017/18
Total Non-domestic Rateable Value at 31 March	£154,768,609	<b>£161,744,489</b>
National Non-domestic Rate Multiplier - Standard	0.497	<b>0.479</b>
National Non-domestic Rate Multiplier - Small Business	0.484	<b>0.466</b>

The Business Rates receivable amount on the face of the Collection Fund Account of £60.389m, is lower than the total of Non-domestic Rateable Value multiplied by the Non-domestic Rate Multiplier due to the award of various reliefs including Small Business Rate Relief and other mandatory and discretionary rate reliefs.

## CF3. Tax Payers' arrears

	2016/17 £000	2017/18 £000	
Council Tax Arrears	10,718	<b>11,071</b>	
Business Rate Arrears	4,181	<b>3,586</b>	
<b>Gross Tax Payers' Arrears at 31 March</b>	<b>14,899</b>	<b>14,657</b>	
Council Tax Prepayments	(4,990)	<b>(5,372)</b>	
Business Rates Prepayments	(1,809)	<b>(2,585)</b>	
<b>Gross Tax Payers' Prepayments at 31 March</b>	<b>(6,799)</b>	<b>(7,957)</b>	
<b>Net Tax Payers' Arrears as at 31 March</b>	<b>8,100</b>	<b>6,700</b>	
<u>Allowance for Bad Debts</u>	2016/17 £'000	2017/18 £'000	% of arrears at 31 March
Council Tax	6,222	<b>5,688</b>	<b>51.38%</b>
Business Rates	2,094	<b>1,798</b>	<b>50.14%</b>
<b>Total Tax Payers' Bad Debt Allowance</b>	<b>8,316</b>	<b>7,486</b>	

# Notes to the Collection Fund



## CF4. Balance Sheet items apportionment

	Total £000	North Somerset Council £000	Police & Crime Commissioner £000	Central Government £000	Avon Fire Authority £000
<b>Council Tax</b>					
Debtors	11,071	9,310	1,287	N/A	474
Bad Debt Allowance	(5,688)	(4,783)	(662)	N/A	(243)
Prepayments & Overpayments	(5,372)	(4,517)	(625)	N/A	(230)
(Surplus) / Deficit at 31 March	(11)	(9)	(2)	N/A	0
<b>Business Rates</b>					
Debtors	3,586	1,757	N/A	1,793	36
Bad Debt Allowance	(1,798)	(881)	N/A	(899)	(18)
Prepayments & Overpayments	(2,585)	(1,267)	N/A	(1,292)	(26)
Appeals Provision	(5,484)	(2,687)	N/A	(2,742)	(55)
(Surplus) / Deficit at 31 March	0	0	N/A	0	0

## CF5. Business Rates – Disregarded amounts

From April 2013 the Council was allowed to retain 100% of the growth from the business rates associated with renewable energy sites, and from April 2014 the Council was also allowed to retain 100% of the growth in business rates in its Enterprise Area.

All such growth is transferred to the Council's General Fund, with the Enterprise Area growth then being pooled with other participating authorities in the City Region Deal (see Note 22 to the main financial statements for full details).

	2016/17 £000	2017/18 £000
Renewable Energy	168	165
Enterprise Area - transfer to City Region Deal	526	362
	<u>694</u>	<u>527</u>



# Statement of Accounting Policies



## Accounting Policies

### i. General Principles

The Statement of Accounts summarises the council's transactions for the financial year 2017/18, and its position at the year-end of 31 March 2018. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which are required to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a 'going concern' basis.

### ii. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for in the current and any future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made as and when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### iii. Accruals of Income and Expenditure

The Council recognises its revenue and capital income and expenditure on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods, and the disposal of assets, is recognised when the council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the percentage of completion of the transaction can be measured reliably, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

# Statement of Accounting Policies



- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue relating to council tax and non-domestic rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. These transactions are therefore required to be measured at their full amount receivable.

#### iv. Council Tax and Non-Domestic Rates

The Council acts as agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principal, collecting Council Tax and NDR for itself. The Council is required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, the Council as billing authority, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account, and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

#### v. Government Grants and Contributions

Whether paid on account, by instalment or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

# Statement of Accounting Policies



## vi. Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for council maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Council's financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

## vii. Charges to Revenue for Non-Current Assets

To record the cost of holding non-current assets during an accounting period, services, support services and trading accounts are debited with:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## viii. Employee Benefits

### Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense in the year in which the employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu), earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Service costs line in the Comprehensive Income and Expenditure Statement at the earlier of:

- when the Council can no longer withdraw the offer of those benefits, or
- when the Council recognises costs for a restructuring that involves the payment of termination benefits.

# Statement of Accounting Policies



Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits, and to replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

## Post-Employment Benefits

The entries in the Statement of Accounts in respect of post-employment benefits are made in accordance with IAS19 Employee Benefits. Although a complex accounting standard, it is based on the simple principle that an organisation should account for post-employment benefits when it is committed to give them, even if the actual giving will be many years into the future. In this way the accounts represent the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.

Employees of the Council are members of three different pension schemes:

- The Local Government Pension Scheme, administered by Bath & North East Somerset Council
- The Teachers' Pensions Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The NHS Superannuation Scheme

### a) The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme:

- Liabilities attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions including, for example, mortality rates, employee turnover rates, and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate calculated as a weighted average of "spot yields" on AA rated corporate bonds.
- Assets within the scheme attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – bid price
  - unquoted securities - professional estimate
  - unitised securities – bid price
  - property - market value

The change in the net pensions liability is analysed into the following components:

#### Service cost comprising:

*Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in Comprehensive Income and Expenditure Statement to the services for which the employees worked

*Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

# Statement of Accounting Policies



*Net Interest on the net defined benefit liability* – i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time - charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurement of the net defined benefit liability, comprising:

*Return on plan assets* – excluding amounts included in net interest expense on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

*Experience gains and losses* - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

*Actuarial gains and losses* – changes in the net pensions liability that arise because the actuaries have updated their financial or demographic assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Statutory provisions require the General Fund balance to be charged only with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are made to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits, and to replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The debit balance that arises on the Pensions Reserve therefore reflects the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

## b) Teachers' Pension Scheme and NHS Superannuation Scheme

The centralised arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes, and no liability for future payments of benefits recognised in the Balance Sheet.

The Children and Young People line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension Scheme. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

## c) Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## d) Somerset and Gloucestershire County Council Schemes

The Council also makes payments to Somerset County Council in respect of pension costs which relate to employees prior to Local Government Reorganisation in 1974. These costs are deemed to represent the current cost of service, and are charged to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement.

# Statement of Accounting Policies



## ix. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

## x. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis as a transaction at the end of each financial year, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council usually recognises amounts in excess of £10,000 as Property, Plant and Equipment expenditure; in accordance with guidelines issued by the Department for Education, this 'de-minimis' limit is reduced to £5,000 for schools expenditure.

### *School Assets*

The Code confirms that maintained schools are capable of being treated as separate entities for control purposes and that, based on the indicators of control within IFRS10, the balance of control lies with the Local Authority, with control of assets being determined in line with relevant standards.

School assets are consolidated into the single entity financial statements according to the recognition tests set out in the Code and according to IAS16 Property, Plant and Equipment where:

- it is probable that the future economic benefits or service potential associated with the item will flow to the Council
- the cost of the item can be measured reliably.

These recognition tests are applied separately to land and buildings assets, and where legal title does not lie with the Council, the terms of any lease, Trust Deed or 'mere licence' are used to ascertain whether the recognition tests are met and the asset should be consolidated.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (EUV) based on capitalisation of estimated market rent
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost, which is used as an estimate of current value
- car parks – current value, based on capitalisation of actual or notional income as applicable

# Statement of Accounting Policies



- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

## Revaluation

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The Section 151 Officer obtains an annual appraisal of trends in property values from the Council's Property Estates and Regeneration Manager in respect of the Council's assets. Based on this appraisal a judgement will be made as to whether any amendment to the Council's accounts is required or whether an adjustment is needed to its revaluation programme.

## Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

The Section 151 Officer is provided with an annual statement from the Property Estates & Regeneration Manager of any of the Council's assets that suffered an impairment loss during the year.

# Statement of Accounting Policies



## Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over the useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, certain Community and Heritage Assets) and assets that are not yet available for use (i.e. assets under construction).

Where an asset has a finite useful life in its existing use, it will be depreciated based on the valuation of the asset at 1 April each year calculated on the following bases:

- other land and buildings – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 60 years)
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (between 1 and 50 years)
- infrastructure – straight-line allocation over the estimated useful life of the asset (between 20 and 60 years)
- surplus assets not held for sale – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 60 years)

The remaining life of the Council's assets is determined by the Council's Property Estates & Regeneration Manager or other professional staff under his/her control when the asset is acquired or at the time of revaluation. If the existing use of an asset changes at any time or an asset becomes surplus to requirements then its finite useful life will be re-assessed.

Where an item of Property, Plant and Equipment asset which has a value in excess of £3m, and has major components whose cost is greater than 20% of the total cost of the asset, the components are depreciated separately.

Depreciation is provided on an appropriate basis according to the asset class of the component which may be different to the class of the overall asset.

Components could be:

- separate blocks / buildings within an overall asset site
- specific elements which form part of the overall asset e.g. roof, engineering, sub-structures, etc.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

# Statement of Accounting Policies



When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Disposals are reflected as a transaction at the end of the financial year.

## **xi. Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account, then reverses out the amounts charged so that there is no impact on the level of Council Tax.

## **xii. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants.

As a non-financial asset, investment properties are measured at 'highest and best' use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line, and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement, and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

# Statement of Accounting Policies



## xiii. Financial Instruments

### Financial Assets

The Council holds two types of Financial Assets:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

#### a) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### b) Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market price – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for Sale Reserve, and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets line in the Comprehensive Income and Expenditure

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# Statement of Accounting Policies



Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

## **xiv. Fair Value Measurement**

The Council measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments, such as equity shareholdings and available for sale financial instruments, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

# Statement of Accounting Policies



Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## xv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## xvi. Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet, but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

# Statement of Accounting Policies



## xvii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Authority as Lessee

#### a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment, in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

### The Authority as Lessor

#### a) Finance Leases

The Council does not own any property that it leases out under finance leases.

#### b) Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and

# Statement of Accounting Policies



Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

## **xviii. Reserves**

The Council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. For each reserve established, the purpose, usage and the basis of transactions is clearly identified.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain 'unusable' reserves are maintained to manage specific accounting processes for non-current assets, financial instruments, retirement and employee and post-employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## **xix. Events After the Reporting Period**

Events after the reporting period, i.e. the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **xx. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **xxi. Allocation between Current and Non-Current**

With the exception of employee entitlements, the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Council's operational cycle. For employee entitlements, all annual leave entitlement is classified as current.

## **xxii. City Region Deal**

The Council has applied the principles of IPSAS23 'Revenue from non-Exchange transactions' (taxes and transfers) in accounting for the transactions and balances relating to the City Region Deal.

City Region Deal business rates growth paid to the accountable body (South Gloucestershire Council) for the Business Rates Pool (BRP) is recognised by the Council as a debtor until such point that the funds are paid out by the BRP or committed and allocated by the Economic Development Fund (EDF) to fund EDF payments in respect of approved programmes.

# Statement of Accounting Policies



- Income - Income receivable by the Council from the BRP is recognised as revenue in the year in which it is due. The Council recognises revenue and a debtor balance to the extent that EDF disbursements are to be received, have been committed to by the EDF, and sufficient cash remains in the BRP to fund the payments.
- Expenditure – Expenditure is recognised by the Council on payments being made by the BRP. Expenditure is recognised in proportion to the degree that the Council has contributed to the BRP through its growth figure, and is capped at the limit of the Council's payment of growth to the BRP in this period, and any previous growth figures paid over which have not been previously paid or committed by the BRP.

## xxiii. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with the other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council, as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.





# Annual Governance Statement



# Annual Governance Statement



## 1. Scope of Responsibility

- 1.1 The council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 1.2 In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.
- 1.3 The council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our code is available from our website <http://www.n-somerset.gov.uk/>. CIPFA/SOLACE Guidance has been updated during the year and a revised Code was approved by Council in 2017/18.
- 1.4 This Statement explains how North Somerset Council has complied with our Local Code of Corporate Governance and also meets the requirements of:
  - The Accounts and Audit (England) Regulations 2015, specifically Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control and preparation and publication of an Annual Governance Statement.
- 1.5 The governance framework described in this Statement has been in place at the council for the year ended 31 March 2018, and up to the date of the approval of the statement of account.

## 2. The Purpose of the Governance Framework

- 2.1 Good governance enables North Somerset Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times and the following diagram illustrates how good governance is integral to supporting the delivery of the organisations priorities.



- 2.2 The system of internal control is a significant part of the framework and is designed to identify and manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives, and so does not provide absolute assurance of effectiveness.

# Annual Governance Statement



## 3. Context for the Annual Governance Statement

- 3.1 The future of Local Government funding remains uncertain, with material changes proposed in areas such as 100% retained Business Rates retention, changes to New Home Bonus allocations and revised and proposed improved Better Care Funds. In recent years, Local Government budgets are finalised just weeks in advance of the financial year to which the resources relate. Whereas the government offered local government some certainty, in October 2016, through a four year funding deal for certain elements, the vast majority of both revenue and capital allocations remain subject to annual allocations.
- 3.2 The only certainty therefore is that, regardless of any proposed changes, austerity in the public sector will remain for the foreseeable future. North Somerset Council continues to meet this challenge having delivered over £90M of revenue savings since 2010. However, further savings and transformation are required and a strong framework of governance will continue to be necessary for the Council to deliver its priorities.
- 3.3 In 2017/18 £8 million of savings or increased income was identified within the budget and in the main these have been delivered successfully without any negative impact on customers. However with further savings more difficult to come by, delivering and maintaining a sustainable local income stream will be crucial to our financial planning model linking with the core strand of 'growth' within the corporate plan.
- 3.4 The four year efficiency plan agreed with central government entails delivery of even higher levels of savings resulting from the latest local government finance settlement and this has formed the backdrop to the council's medium term financial plan agreed in February 2018. The Council has therefore recognised its need to continue to transform to meet the financial challenges and further plans to deliver savings are well advanced.
- 3.5 The Council continues its strong approach to financial control and value for money whilst recognising that new technology will increasingly play a large part in future efficiencies, with its digital strategy now forming a central theme to service redesign within transformational activity in each Directorate.
- 3.6 Demographic changes have also meant pressures on social service budgets have continued. The council has had to work harder than ever to ensure vulnerable groups and individuals remain safe. In particular the number of children and young people in need of care continues to put pressure on services, especially in the area of learning difficulties. However the Council works strongly with its partners to use the (Improved) Better Care fund to jointly commission preventative and early intervention care and support. We are also actively looking at innovation and new ways of thinking to tackle the issues we are facing and the use of a Social Impact Bond where working in partnership with children on the 'edge of care' we are helping to stem demand is already achieving encouraging results and further transformational activity is both planned and underway.
- 3.7 However key to the Council's future plans is supporting new economic growth and delivering on the Council's new Economic Plan. The town centre is already designated as a Housing Zone by the Government and working with Homes England (formerly the HCA) will help provide funding and support to unlock brownfield land for housing development.
- 3.8 The re-development of Dolphin Square, the Police Station, former Magistrates' Court, Roselawn Terrace, Walliscote Grove Road East Car Park, and their immediate surroundings, will and has already acted as catalysts to set a new quality benchmark for the town. Public realm improvements will enhance the setting of the new and existing buildings and establishing the area as a key gateway to the town.
- 3.9 The Council has gone further however by introducing a £100m strategic investment fund which will have the specific aim of generating commercial returns including an immediate net yield of 6%. This surplus will be credited to the revenue budget and help fund front-line services. As well as continuing to maximise external funding the Council is focussed on future investment and taking new opportunities, these include the setting up of its own development companies to deliver on the growth agenda.

# Annual Governance Statement



- 3.10 The Council also has a strong background in delivering on major projects with a series of major transport schemes at J19, J21, the South Bristol Link Road and the Weston Package delivered on time and within budget in previous years. However significant financial risks remain around progressing MetroWest (the Portishead Rail Link) following recent government announcements and further risk assessments are being undertaken to assess potential impacts and options for moving forward.
- 3.11 Despite the need to transform and redesign services to meet the scale of the financial challenges the council's ambitions have remain unchanged – to provide a great place to live, where people, businesses and communities flourish. The Corporate Plan developed during the year recognises this with a new focus on Prosperity and Opportunity, Health & Wellbeing and Quality Places to further enhance delivery of our priorities.

# Annual Governance Statement



## 4. Methodology for Preparing the Annual Governance Statement 2017/18

Independent Assurance	Senior Management	Performance Management	External Review / Assurance	Corporate Assurance Sources
<ul style="list-style-type: none"> <li>* Head of Audit Opinion</li> <li>* Audit Plan &amp; Outcomes of Work</li> <li>* Annual Audit Plan</li> <li>* Risk Management</li> <li>* Counter fraud activity and Investigations</li> </ul>	<ul style="list-style-type: none"> <li>* Corporate Management Team</li> <li>* Financial Strategy Board</li> <li>* Partnership Working</li> <li>* Client / Contract Management</li> <li>* Medium Term Financial Plans &amp; Savings Proposals</li> </ul>	<ul style="list-style-type: none"> <li>* Corporate Plan</li> <li>* Internal Management Reviews</li> <li>* KPI and Data Quality</li> <li>* Performance &amp; Risk Management</li> <li>* Programme and Project Management</li> <li>* Benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>* Inspection Reports</li> <li>* Peer Reviews</li> <li>* Commissioned Reviews</li> <li>* Ombudsman</li> <li>* External Audit Plans, Letters and Reports</li> </ul>	<ul style="list-style-type: none"> <li>* Audit Committee</li> <li>* Scrutiny Process</li> <li>* Statutory Officers</li> <li>* Legal Services</li> <li>* Consultation, Complaints, Feedback</li> <li>* Equality Impact Assessments</li> <li>* Codes of Conduct</li> </ul>



### Set out the arrangements for compilation and approval of the Annual Governance Statement 2017/18

Audit Committee

March 2017



### Review progress made against any significant issues included in the 2016/17 Annual Governance Statement

Audit Committee

March 2017



### Consideration of emerging issues for 2017/18 Annual Governance Statement

CMT & Statutory Officers Group

Continuous up to May 2018

# Annual Governance Statement



## 5. The Governance Framework

The council is committed to meeting best practice standards for good governance. The council has expressed commitment to CIPFA/SOLACE's six core principles and supporting principles of Corporate Governance, as outlined in the guidance document *'Delivering Good Governance in Local Government: Framework'*. The principles are as follows:

### 5.1 Principle 1

#### **FOCUS ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA.**

The key elements of the Council's governance framework are described below and the documents are available on the Council's website <http://www.n-somerset.gov.uk/>

#### **Sub Principles**

##### **5.1.1 IDENTIFYING AND COMMUNICATING THE COUNCIL'S VISION OF ITS PURPOSE AND INTENDED OUTCOMES FOR THE PUBLIC AND SERVICE USERS.**

Public, private, voluntary and community organisations and local communities worked together to produce the Sustainable Community Strategy. It describes the shared vision for North Somerset and priorities to improve economic, social and environmental well-being of the area.

Following the elections in May 2015 the Corporate Plan was refreshed and approved by Council for the period 2015-19 setting out the council's aims and priorities with three key outcomes for the Community – Prosperity & Opportunity, Health and Wellbeing and Quality Places. Progress in delivering for local people is reported on the council's website and in North Somerset Life.

##### **5.1.2 REVIEWING THE COUNCILS' VISION AND ITS IMPLICATIONS FOR THE COUNCIL'S GOVERNANCE ARRANGEMENTS.**

The Council's vision as detailed in the Corporate Plan 2015-19 is for *'A great place to live where people, businesses and communities flourish and modern, efficient services and a strong voice for North Somerset'*. The Corporate Plan underpins the work of the council and the priorities set out within the document play an important role in directing the resources including staff and money and thereby the governance arrangements.

##### **5.1.3 MEASURING THE QUALITY OF SERVICES FOR USERS, ENSURING THEY ARE DELIVERED IN ACCORDANCE WITH THE COUNCIL'S OBJECTIVES AND THAT THEY REPRESENT BEST USE OF RESOURCES.**

A performance management framework describes how the Council monitors and manages its performance to ensure the council delivers against its priorities for local people. The council has set clear targets and reports performance against targets. For high level corporate performance indicators, performance is reported quarterly to the Executive. Directorates, services, teams, projects and individuals similarly work to and report performance against their own targets. These are designed to ensure quality, value for money services.

# Annual Governance Statement



## 5.2 Principle 2

### **MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES.**

#### **Sub Principles**

- 5.2.1 DEFINING AND DOCUMENTING THE ROLES AND RESPONSIBILITIES OF THE EXECUTIVE, NON-EXECUTIVE, SCRUTINY AND OFFICER FUNCTIONS, WITH CLEAR DELEGATION ARRANGEMENTS AND PROTOCOLS FOR EFFECTIVE COMMUNICATION.

The Constitution explains how the Council operates, how it makes decisions and the procedures followed to ensure the Council is efficient, transparent and accountable.

The Constitution includes descriptions of how the Council, Executive, Scrutiny and other groups operate and how they work with officers. It describes the rules for how meetings work and how decisions are made. The Constitution is reviewed annually and its outcomes reported back to Council.

- 5.2.2 INCORPORATING GOOD GOVERNANCE ARRANGEMENTS IN RESPECT OF PARTNERSHIPS AND OTHER GROUP WORKING AND REFLECTING THESE IN THE COUNCIL'S OVERALL GOVERNANCE ARRANGEMENTS.

The Council works in partnership with a wide range of organisations and groups. A list of these is shown on the Council's website. The main partners are as follows:

- North Somerset Community Partnership is an overarching partnership for the area bringing together public, private and voluntary and community sector organisations. The Partnership continues to work hard on new plans to drive further integration and joint working across the different agencies to deliver sustainable benefits for the whole community. Governance arrangements are well established and now include the Infrastructure and Local Economy Board and People and Communities Board. The Partnership is chaired by the Leader of North Somerset Council.
- North Somerset Safeguarding Children's Board and North Somerset Safeguarding Adults Partnership Board work to reduce the risk of abuse and neglect for local people. Both the Children's and Adults Boards are governed by statute.
- Schools are important partners and at high level the Council works with local schools including Academy Schools and other providers through the Strategic Schools Forum (SSF) to support children to achieve their full potential.
- The Council works with its three local Unitary Authorities and business partners in the West of England Local Enterprise Partnership. The partnership supports economic growth and works to attract new jobs and investment to the area. The partnership has long established local governance arrangements which were enhanced in response to agreeing the City Region Deal.
- In addition, whilst full Council decided not to join the new West of England Mayoral Combined Authority extensive co-operation and engagement has already been established to ensure North Somerset can maximise where possible opportunities to work across the sub-region on infrastructure, skills, employment and housing.
- The Council entered into a Strategic Partnership with Agilisys in 2010 (Agilisys and Liberata) which was extended in 2015. The partnership delivers much of the Council's support services such as ICT and the revenue and benefits service. Through the partnership the Council has increasingly used private sector expertise and innovation in its day to day business to drive up value for money and deliver better services. Governance is through a Strategic Partnership Board which has Member representation and an Operations Board.

# Annual Governance Statement



## 5.3 Principle 3

### **PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR.**

#### **Sub Principles**

#### **5.3.1 DEVELOPING, COMMUNICATING AND EMBEDDING CODES OF CONDUCT, DEFINING THE STANDARDS OF BEHAVIOUR FOR MEMBERS AND OFFICERS.**

The Council's values are defined in the Corporate Plan. They influence the way the Council goes about its business through its strategies, plans and behaviours. The values form the Council's leadership standards. These are promoted to all officers and form part of the induction process. All managers are assessed against the leadership standards within the annual appraisal process and these were refreshed in 2017.

The Council has adopted a new Code of Conduct in response to the Localism Act 2011 and also established a Standards Sub Committee whose remit is to consider any allegations of breaches of the Code. Members are required to disclose any interests and these are posted on the Council's website. Officers are also required to comply with a Code of Conduct and Customer Care Charter and Standards. On an annual basis officers are required to register any interests.

The Constitution includes a member-officer protocol which defines how officers and members should work together.

## 5.4 Principle 4

### **TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK.**

#### **Sub Principles**

#### **5.4.1 REVIEWING AND UPDATING STANDING ORDERS, FINANCIAL REGULATIONS, A SCHEME OF DELEGATION AND SUPPORTING PROCEDURE NOTES / MANUALS, WHICH CLEARLY DEFINE HOW DECISIONS ARE TAKEN AND THE PROCESSES AND CONTROLS TO MANAGE RISKS.**

The Council periodically updates its Constitution, Standing Orders and Financial Regulations. These incorporate the scheme of delegation and describe how decisions are taken.

The Medium Term Financial Plan details how the Council intends to spend its financial resources over the short and medium term. A Procurement Management Strategy and Contract Management Strategy have been in place since 2012, however following the appointment of a new shared procurement manager with South Gloucestershire Council in 2015 these arrangements were refreshed with a new operating model agreed in 2016/17. All contract opportunities are advertised on the website and through the recognised government recommended portals.

The Council's Risk Management Strategy describes the Council's approach to the management of risk. The effectiveness of the arrangements is effectively overseen by the Corporate Management Team through the decision making process supported by the Audit Committee overseeing the framework. The Council recognises and accepts that the environment means it must tolerate a higher level of risk than in the past. All formal decisions are accompanied by an assessment of the risks involved and the assessments are documented in reports and decision papers.

# Annual Governance Statement



## 5.4.2 ENSURING THE AUTHORITY'S FINANCIAL MANAGEMENT ARRANGEMENTS CONFORM WITH THE GOVERNANCE REQUIREMENTS OF THE CIPFA STATEMENT ON THE ROLE OF THE CHIEF FINANCIAL OFFICER IN LOCAL GOVERNMENT (2010).

The Head of Finance and Property is the Council's Section 151 Officer. He attends the Corporate Management Team meetings. He ensures all decisions are in accordance with the medium term financial strategy and that public money is properly safeguarded. He is also required to ensure that the Council's finance function is adequately resourced and officers have the necessary experience and qualifications to provide an effective financial management service. As part of the Council's transformation activity the Finance Service was restructured during 2016/17 to align key finance roles more closely to the S151 Officer whilst ensuring each Directorate had a clearly defined Business Partner role to support them.

The Financial Strategy Board supports the Head of Finance & Property and is a key forum for challenge and formulation of financial strategy and decisions. The group considers short and long term budget plans, and the prioritisation of revenue and capital expenditure as well as the use of reserves.

## 5.4.3 CARRYING OUT THE CORE FUNCTIONS OF AN AUDIT COMMITTEE, AS IDENTIFIED IN CIPFA'S AUDIT COMMITTEE – PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES.

The Audit Committee comprises five elected Members and independent (non-elected) Members. The Committee's responsibilities are described in its terms of reference which form part of the council's constitution. The Committee met formally four times during the year and in addition received briefings around specific topics relevant to its terms of reference. The Committee reports annually to Council to detail the work undertaken and demonstrate that it is discharging its responsibilities effectively.

## 5.4.4 ENSURING COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS, INTERNAL POLICIES AND PROCEDURES, AND THAT EXPENDITURE IS LAWFUL.

The Chief Executive, Monitoring Officer and Head of Finance and Property meet quarterly to consider any significant statutory or legislative issues impacting upon delivery of the Council's priorities.

The Monitoring Officer and Head of Finance and Property approve any reports prior to their consideration by the Executive and Council. In this way the Council ensures it complies with the relevant legislation and guidance and decisions do not place the Council at unacceptable risk.

## 5.4.5 WHISTLE BLOWING AND RECEIVING AND INVESTIGATING COMPLAINTS FROM THE PUBLIC.

The Council's policies and procedures promote a culture of integrity and high standards. The Constitution includes Codes of Conduct for staff and members, and the Anti-Fraud and Corruption Policy Statement. The council also maintains a Counter Fraud Strategy and an active programme of work aims to prevent and detect any fraud which might affect the council which were refreshed during 2016/17. The Council also revised and re-launched its Anti-Bribery Policy in 2015.

The Internal Audit Service and Human Resources receive and consider anonymous referrals from officers or the public of suspected wrong doing. They work with other Council's services or partner organisations to investigate any allegations of improper behaviour and take action as necessary.

The Council's complaints process is advertised on its website and the public is able to make compliments, suggestions or complaints on line, in person or by phone. The process describes what a member of the public can do if they are unhappy with the way their complaint has been handled.

# Annual Governance Statement



## 5.5 Principle 5

### DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE.

#### 5.5.1 IDENTIFYING THE DEVELOPMENT NEEDS OF MEMBERS AND SENIOR OFFICERS IN RELATION TO THEIR STRATEGIC ROLES, SUPPORTED BY APPROPRIATE TRAINING.

Every officer is entitled to an annual appraisal where their performance is reviewed and development needs identified. For managers the appraisal process includes an evaluation against the Council's leadership standards.

The appraisal is accompanied by a training and development plan. Mandatory training for managers includes Managing and Leading in North Somerset. A range of mechanisms are in place to meet officer's individual training and development needs including a suite of e-learning activities.

The Council puts on a programme of training and development for Members which is accessible at any time whilst newly elected Members receive more intensive support which was delivered following the elections in May 2015.

## 5.6 Principle 6

### ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY

#### 5.6.1 ESTABLISHING CLEAR CHANNELS OF COMMUNICATION WITH ALL SECTIONS OF THE COMMUNITY AND OTHER STAKEHOLDERS, ENSURING ACCOUNTABILITY AND ENCOURAGING OPEN CONSULTATION.

The Council takes its responsibilities for listening to what local people want very seriously. All consultations are advertised on the website through eConsult. The Council accesses groups with particular needs or interests through established forums such as the Citizens' panel and minority group networks.

Results from consultation exercises and resident's survey have been used to inform the Council's future direction and priorities.

North Somerset Life is an important mechanism for communicating with local people. It is delivered direct to over 91,225 homes and is also available at public buildings and on line. The magazine keeps people informed of what's happening in North Somerset and helps facilitate a dialogue between the Council and local people.

Another very important mechanism for listening to local people's views is through the work of ward Members.

The Council has a set of rules that all council departments and services work to rather than a specific policy on consultation as indicated in the Local Code of Governance.

## 6. Review of Effectiveness

### 6.1 PROCESSES FOR MAINTENANCE AND REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The process for the Annual Governance Statement is a continuous process and Senior Officers and the Audit Committee consider emerging issues during the course of the year. This means that controls issues and risks can be addressed more quickly. Publication of this Annual Governance Statement is the culmination of this work. The Council's chief officers sign the Statement as a summary of the effectiveness of the Council's governance framework.

# Annual Governance Statement



## 6.2 OTHER CONTRIBUTORY REVIEW / ASSURANCE MECHANISMS

In evaluating the effectiveness of the Council's governance, information is available from a wide range of sources. These include the Internal Audit Service, the Information Governance Group, the External Auditors, inspectorates such as the Care Quality Commission and directorates themselves.

The Head of Audit & Assurance in conjunction with Statutory Officers reviews the effectiveness of the governance framework during the year and the draft Annual Governance Statement. The Statement is signed by the Chief Executive and Leader of Council and formally reviewed by the Audit Committee as part of the Financial Statements.

Key risks have been kept under review during the year and will continue to form an ongoing focus for successful delivery of the Council's plans. Work to manage risk in 2017/18 has included –

- Meeting the Financial Challenge
- Reshaping the Council through its Transformation activity in each of its Directorates
- Supporting and stimulating Economic Growth and Regeneration through its new economic plan
- Safeguarding Children and Vulnerable Adults
- Delivering joined up commissioning of social care through the (Improved) Better Care Fund
- Supporting Council Services through an increase in its digital approach and effective use of IT
- Working across the west of England region to stimulate housing needs, skills and employment
- Managing and Investing in the key infrastructure and assets of the area and wider sub-region

## 7. Head of Audit and Assurance Opinion

The Head of Audit and Assurance is satisfied that the risk, governance and control environment of the Council is adequate to ensure delivery of the Council's priorities. Through the work of the Internal Audit Service and delivery of the Annual Audit Assurance Plan, some control issues have been identified, however none are deemed significant when assessed against the key criteria. The Head of Audit and Assurance is content that management have accepted responsibility to address the control weaknesses.

The Annual Audit Assurance Plan 2017/18 was developed to give an independent opinion to the Council on reasonable assurance through a systematic detailed risk assessment of the totality of systems, processes, plans and resources which make up the Council.

The Plan focused on core financial and other systems and areas presenting the greatest risk to the Council and was designed to ensure sufficient depth and breadth of audit coverage to meet the requirements of those charged with governance. In forming an opinion on the governance, risk and control environment, in addition to the Audit Assurance Plan, the Head of Audit also considered other sources of assurance including reports from external regulators, external audit and commissioned reviews.

Signed:

A handwritten signature in black ink, appearing to read 'J. Wring', written over a light blue horizontal line.

**Jeff Wring**  
**Head of Audit and Assurance**  
**29 May 2018**

Date:

# Annual Governance Statement



## 8. Update on Significant Issues raised in the 2016/17 Annual Governance Statement

Issue in 2016/17	Mitigating actions for 2016/17	Update 2017/18
<p>As detailed in the previous year the significant issue identified around the financial challenge continues to be severe, with public sector austerity likely to last well beyond 2020.</p> <p>The Council has responded positively with over £50m of savings already delivered, however at least £21m of additional savings still need to be identified over the remaining period.</p> <p>Despite exhaustive efforts the Council's financial sustainability is being challenged and its outturn position for 2016/17 resulted in a £2.8m overspend with again the major challenges and spend pressures being in the sectors of Adult Social Care and Children's Services.</p> <p>Whilst again no significant governance failures have occurred, the Council acknowledge that the level of financial challenge represent the most significant set of challenges it has faced in being able to continue to deliver excellent services</p> <p>Nationally the pressures in Social Care have started to be recognised and some temporary funding has been provided for future years. However this does not close the gap and</p>	<p>As with last year the Council has already set out many of its plans to deliver services into the future against the backdrop of significant financial reductions. Actions included –</p> <ul style="list-style-type: none"> <li>- A co-ordinated change programme for adult social care which includes allocating £4.7m of additional growth within the MTFP;</li> <li>- Using the Community Access review to rationalise our resource base within whilst improving accessibility of front line service;</li> <li>- Use of the Social Impact Bond where working in partnership with children on the 'edge of care', helps stem demand ;</li> <li>- Reviewing the Single Point of Access (SPA) to help reduce demand;</li> <li>- Reviewing alternative service provision for high cost learning disability placements and Direct Payment provision;</li> <li>- Continuing the new stringent cost control mechanisms on staff costs, goods, works and services at an operational level;</li> <li>- More regular monitoring of delivery against the annual revenue budget, alongside sensible utilisation of reserves;</li> </ul>	<p>As previously advised, the Council's financial performance is reviewed, assessed and challenged by the corporate management team on a monthly basis, together with the key risks and assumptions that were included within the medium term financial plan.</p> <p>Clearly this increased scrutiny, which has seen the development of a range of proposals that are being implemented by the directorate management teams, has given greater attention and focus upon priority areas and also delivered an improvement in the council's overall financial monitoring position.</p> <p>The projected net expenditure position has improved significantly across many areas of the council's budget forecasts, meaning that the net position by the council at the end of the year was broadly break even ignoring some exceptional one-off sums of almost £3m.</p> <p>Whilst this position should be seen as a significant achievement in the current climate, it should also be recognised that much of this has been accomplished through the one-off curtailment of spending; this is not sustainable and will not be without consequence. Deferring work in highways maintenance, for example, will increase the backlog of outstanding defects.</p> <p>Importantly the in-year mitigations will not change the Council's strategic approach set out in the corporate plan, they will seek</p>

# Annual Governance Statement



Issue in 2016/17	Mitigating actions for 2016/17	Update 2017/18
<p>increased health and social care integration and service transformation will be necessary.</p> <p>The challenge is therefore across all services and entails making difficult choices. We therefore need robust governance and sensible plans to enable services to deliver against this backdrop.</p>	<ul style="list-style-type: none"> <li>- Working effectively with Key Partners, especially those in Health and across the West of England Area</li> </ul>	<p>to progress the council onto more medium-term and sustainable solutions which are aligned with our aims and ambitions</p>

## 9. Significant Issues for 2017/18

Issue in 2017/18	Commentary & Mitigating actions for 2018/19
<p><b><u>Financial Challenge</u></b></p> <p>As detailed for the last two years the significant issue identified around the financial challenge continues to be severe, with public sector austerity and a range of economic challenges likely to last well beyond 2020.</p> <p>The Council has responded positively with over £90m of savings already delivered, however at least £8.8m of additional savings still need to be identified over the remaining period. Therefore the Council has been actively planning to meet this challenge with new savings initiatives already being worked on for the current and future years.</p> <p>Despite this the Council's financial sustainability is being challenged and its outturn position for 2017/18 in two of its largest service areas resulted in overspends of £1.57m in Adult Services and £2.97m in Children's Services.</p>	<p>As with previous years the Council has already set out many of its plans to deliver services into the future against the backdrop of significant financial reductions. One of the key principles of the 2018/19 budget was to provide growth of £13m to meet existing and new demands, particularly in relation to social care and children's services in order to improve and robustness and sustainability of the budget</p> <p>The budget also includes £9.8m of savings that will need to be delivered in order to achieve a balanced budget. Overseeing delivery against this agenda is a key role for the Executive and Senior Management and they will continue to be pro-active in working to ensure that significant risks to the organisation are appropriately mitigated &amp; controlled</p> <p>The Council has a range of detailed plans and actions, highlights of which include –</p>

# Annual Governance Statement



Issue in 2017/18	Commentary & Mitigating actions for 2018/19
<p>Whilst again no significant governance failures have occurred, the Council acknowledge that the level of grant reductions from central government are a significant issue and represent the most significant set of challenges it has faced in being able to continue to deliver excellent services to the whole community at all times.</p> <p>Nationally the pressures in Social Care and Children’s Services have started to be recognised and some temporary funding has been provided for future years. However this does not close the gap and increased health and social care integration and service transformation continues to be necessary.</p> <p>This puts additional strain on being able to meet the challenge not just in Social Care and Children’s Services but across all services and entails making difficult choices. We therefore need robust governance and sensible plans to enable services to deliver against all of these challenges.</p>	<ul style="list-style-type: none"> <li>- Utilisation of the Improved Better Care Fund using the Adult Social Care precept along with a co-ordinated change programme for Adult Social Care and Children’s Services which includes allocating £7.6m of additional growth in Social Care and £2.9m for Children’s within the medium term financial plan;</li> <li>- Using the Community Access review to rationalise our resource base within whilst improving accessibility of front line services such as children centres;</li> <li>- Continued use of the Social Impact Bond where working in partnership with children on the ‘edge of care’, helps stem demand over the medium term ;</li> <li>- Reviewing care package assessments and the single point of access (SPA) to help reduce demand and enable people to live in their own homes;</li> <li>- Reviewing service provision for high cost learning disability placements, opportunities within Direct Payment provision and in-house Fostering;</li> <li>- Reviewing Nursery Provision, Children’s Centres and preventive services;</li> <li>- Working effectively with Key Partners, especially those in Health and across the West of England Area to support the most vulnerable in the community;</li> <li>- Continuing the stringent cost control mechanisms on staff costs, goods, works and services at an operational level whilst using the Corporate Plan and Medium Term Financial Plan to help focus services at a strategic level on doing the right things for the North Somerset Community</li> </ul>

# Annual Governance Statement

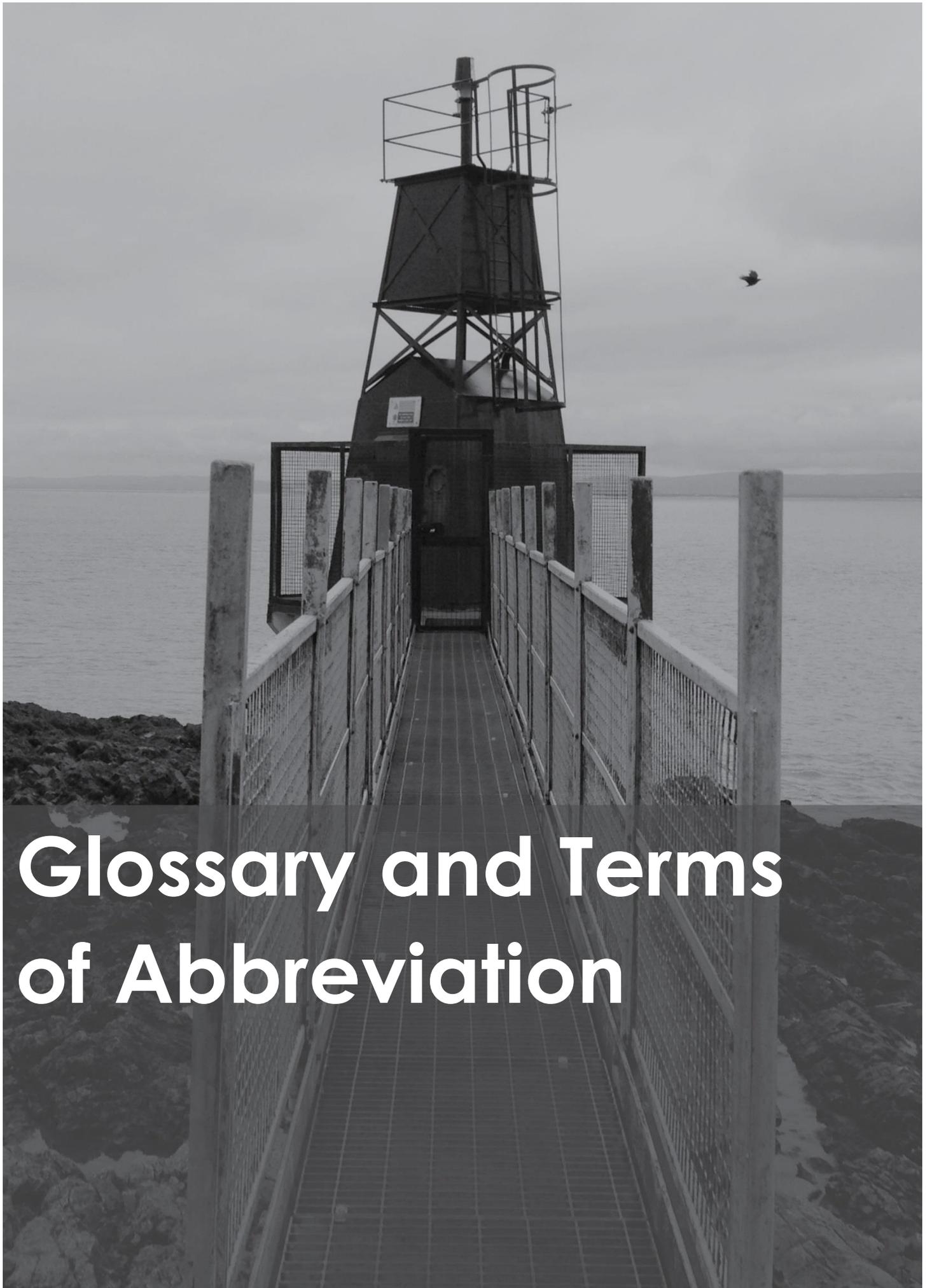


## Chief Executive and Leader of the Council's Declaration

We have been advised on the results of the review of the effectiveness of the governance framework and certify the Annual Governance statement on behalf of the organisation.

**Signed:** Elfan Ap Rees  
Deputy Leader of the Council

**Signed:** Nicholas Brain  
Head of Legal & Demcratic Services



# Glossary and Terms of Abbreviation



# Glossary and Terms of Abbreviation



## A

### **Accounting Period**

The period of time covered by the accounts, normally a period of 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **Accounting Statements**

The Council's Core Financial Statements and Supplementary Financial Statements.

### **Accruals**

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which no payment has yet been made or received at the Balance Sheet date.

### **Actuarial Gains and Losses (Pension Schemes)**

Changes in the net pensions liability that arise because events have not matched assumptions at the last actuarial valuation or because actuarial assumptions have changed.

### **Amortisation**

A term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred charges) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for Non-Current Assets.

### **Appointed Auditors**

The appointment of external auditors to local authorities is undertaken by Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee and incorporated by the Local Government Association. Grant Thornton UK LLP have been appointed as the Council's external auditors.

### **Approved Institutions**

Funds that are not immediately required may be invested but only with third parties meeting the credit rating criteria approved annually as part of the Council's Treasury Management Policies and Practices.

### **Asset**

An item having value in monetary terms. See also Current Assets, Non-Current Assets and Financial Asset.

### **Audit of Accounts**

An independent examination of the Council's financial affairs.

## B

### **Billing Authority**

A local authority responsible for collecting Council Tax and National Non-Domestic Rates.

### **Budget**

The forecast of net revenue and capital expenditure over an accounting period.

## C

### **Capital Expenditure**

Expenditure for the acquisition, provision or improvement of non-current assets, which will be of long-term value to the Council, providing services beyond the current accounting period.

# Glossary and Terms of Abbreviation



## C

### **Capital Financing**

The raising of money to pay for capital expenditure through borrowing, usable capital receipts, capital grants and contributions or use of reserves.

### **Capital Financing Requirement (CFR)**

The Capital Financing Requirement shows the amount of funds required by the Council as a result of capital investment and resources set aside in the year.

### **Capital Programme**

The capital schemes the Council intends to carry out over a specified time period.

### **Capital Receipts**

Money received from the disposal of non-current assets or the repayment of grants and loans, which is available for financing future capital expenditure.

### **Collection Fund**

A statutory fund maintained by a billing authority, which is used to record local taxes and Non-Domestic Rates collected by the authority, along with payments to precepting authorities, the national pool of Non-Domestic Rates and the billing authority's General Fund

### **Community Assets**

Assets which the Council intends to hold in perpetuity, that have no determinable finite useful life, and that may have restrictions on their disposal, e.g. parks, historical buildings. See also Non-Current Assets.

### **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same

### **Contingency**

Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

### **Contingent Asset**

A possible asset that arises from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

### **Contingent Liability**

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount cannot be measured with sufficient reliability.

### **Council Tax**

The main source of local taxation for local authorities. Council Tax is levied on households within its area by the billing authority and the proceeds are paid into the Collection Fund for distribution to precepting authorities and the Council's General Fund.

# Glossary and Terms of Abbreviation



## C

### **Creditors**

Amounts owed by the Council for works completed, goods received or services rendered before the end of the accounting period but for which payments have not been made.

### **Current Assets**

Assets which can be expected to be consumed or realised during the next accounting period.

### **Current Liabilities**

Amounts which will become due or could be called upon during the next accounting period.

### **Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liabilities as a result of employee service earned in the current period.

### **Curtailement (Pensions)**

An event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

## D

### **Debtors**

Amounts due to the Council for works completed, goods received or services rendered before the end of the accounting period but for which payments have not been received.

### **Demographic assumptions (Pensions)**

Assumptions re longevity of current and future pensioners used by the actuary in assessing pension scheme liabilities.

### **Depreciation**

The estimated benefit of an asset consumed during the accounting period, owing to age, wear and tear, deterioration or obsolescence.

### **Direct Revenue Financing (DRF)**

Resources provided from the Council's revenue budget to finance the cost of capital projects.

## E

### **Equity**

The Council's value of total assets less total liabilities.

### **Equity Instrument**

A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

### **Events After the Reporting Period**

Those events, both favourable and unfavourable, of such materiality that either their disclosure, or amendment to the accounts, is required for the fair presentation of the Statement of Accounts, which occur between the Balance Sheet date and the date on which the Accounts are signed by the responsible financial officer.

### **Experience gain (Pension schemes)**

The actuarial gains and losses element arising where actual events have not coincided with the actuarial assumptions made for the last assessment.

# Glossary and Terms of Abbreviation



## E

### External Audit

The independent examination of the activities and accounts of local authorities in order to give an opinion as to whether the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices, and to ensure the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## F

### Fair Value (FV)

The price an asset could be exchanged for in an orderly transaction between market participants at the measurement date.

### Fees and Charges

Income raised by charging users of services for facilities, e.g. leisure centres, trade refuse, etc.

### Finance Leases

A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The present value is calculated using the interest rate implicit in the lease.

### Financial Asset

A right to future economic benefits controlled by the Council that is represented by:

- cash
- an equity instrument of another entity
- a contractual right to receive cash (or another financial asset) from another entity
- a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Council.

### Financial assumptions (Pensions)

Finance related assumptions used by the actuary in assessing pension scheme liabilities (e.g. rates of inflation)

### Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### Financial Liability

An obligation to transfer economic benefits controlled by the Council that is represented by:

- a contractual obligation to deliver cash (or another financial asset) to another entity
- a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Council.

## G

### General Fund (GF)

The main revenue fund of a billing Council, used to meet day-to-day spending.

### Government Grants

Grants made by the Government towards either revenue or capital expenditure to support the cost of provision of the Council's services. These grants may be specifically towards the cost of particular schemes or to support the revenue spend of the Council.

# Glossary and Terms of Abbreviation



## G

### **Gross Expenditure**

The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

### **Growth**

Any increase in spending from one year to another which enables the Council to pay for more services rather than to meet higher costs.

## H

### **Housing Benefit (Rent Allowance)**

An allowance to persons on low (or no) income to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but central government refunds part of the cost of the benefit provided and of the running costs of the service to local authorities.

## I

### **Impairment**

A reduction in the value of a fixed asset, below its carrying amount on the Balance Sheet.

### **Income**

Amounts that the Council receives or expects to receive from any source, including fees and charges, sales and grants.

### **Individual Schools Budget**

That part of the local schools budget which must be delegated to schools via the school's funding formula.

### **Infrastructure Assets**

Non-current assets belonging to the Council which do not necessarily have a resale value e.g. highways, and for which a useful life span cannot be readily determined.

### **Intangible Assets**

Non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights e.g. IT Software.

### **Interest Receivable**

The money earned from the investment of surplus cash.

### **Inventories**

Items of raw materials and stores the Council has procured to use on a continuing basis and which it has not yet used.

### **Investment Property**

Land and Buildings non-current assets held only for investment potential.

## J

### **Joint Arrangement**

An arrangement under which the participants engage in joint activities but do not create a legal entity because it would not carry on a trade or business of its own.

# Glossary and Terms of Abbreviation



## L

### **Liability**

A liability is where the Council owes payment to an individual or another organisation. See also Contingent Liability, Current Liabilities and Financial Liability.

### **Local Council Tax Support Scheme**

Assistance provided by billing authorities to adults on low incomes to help pay their Council Tax bill. The cost is borne by the Council.

### **Local Management in Schools (LMS)**

A system of delegation of management responsibility and budgets to schools, which has applied since 1990/91, introduced by the Education Reform Act 1988.

### **Local Services Support Grant**

A general grant allocated by Central Government to help support and protect local services. Money is allocated by the Department for Communities and Local Government, Department for Environment, Food and Rural Affairs and the Home Office.

### **Long-Term Assets**

Non-current and other assets which can be expected to be of use or benefit the Council in providing its service for more than one accounting period.

### **Long-Term Liabilities**

Amounts which will become due or could be called upon beyond the next accounting period.

## M

### **Materiality**

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements to a reader.

### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged to a Council's revenue account each year and set aside as provision for repayment of debt as required by the Local Government Act 2003.

## N

### **National Non-Domestic Rates (NNDR)**

A levy on businesses, based on a national rate in the pound set by the Government, multiplied by the rateable value of the premises they occupy.

### **Net Book Value (NBV)**

The amount at which non-current assets are included in the balance sheet.

### **Net Debt**

The Council's total borrowings less cash investments.

### **Net Expenditure**

Gross expenditure less specific service income.

### **Net Interest on the Net Defined Benefit Liability (Pensions)**

The net interest expense - the change during the period in the net benefit liability that arises from the passage of time.

.....

# Glossary and Terms of Abbreviation



## N

### **Non-Current Assets**

Property, plant and equipment and other assets that bring longer term benefit or service potential to the Council.

### **Non-Operational Assets**

Assets held by the Council but not directly occupied, used or consumed in the direct delivery of services, e.g. assets in the course of construction and surplus land.

## O

### **Operating Leases**

A lease other than a Finance Lease (see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding un-discharged obligations in relation to such leases.

### **Operational Assets**

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

### **Out-turn**

Actual income and expenditure in a financial year (accounting period).

## P

### **Past Service Costs (Pensions)**

The increase in the present value of the defined benefit scheme liabilities, related to employee service in prior periods, arising as a result of, or improvement to, retirement benefits.

### **Pension Fund**

An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of its participants; it is financed from contributions from the employing authority, the employee and investment income.

### **Pension Strain**

Pension strain costs occur when there is a shortfall in the assumed level of funding needed to provide a particular pension benefit. This often occurs when a member draws their benefits earlier than expected.

### **Precept**

A levy made by one statutory body (the Precepting Authority) on another to meet the net cost of its services.

### **Precepting Authorities**

Those authorities raising a precept that are not Billing Authorities; i.e. do not collect the Council Tax and National Non-Domestic Rates. Police authorities are 'major' precepting authorities and town and parish councils are 'local' precepting authorities.

### **Prior Period Adjustments**

Adjustments made to prior years comparator figures arising from changes in accounting policies or from the correction of material errors.

### **Provisions**

Amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise, e.g. bad debts.

# Glossary and Terms of Abbreviation



## P

### **Prudence**

The concept that income should only be anticipated to the extent that it will be received, as cash or other assets, with reasonable certainty and full and proper allowance should be made for all known and foreseeable losses and liabilities.

### **Prudential Code**

The CIPFA Prudential Code for Capital Finance in Local Authorities – the guidance applicable from April 2004 for the greater freedom for authorities to borrow to fund capital investment (under the Local Government Act 2003). This Code requires the Council to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

### **Public Works Loan Board (PWLB)**

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. The Council is able to borrow a proportion of their requirements to finance capital expenditure from this source.

## R

### **Rateable Value**

The annual assumed rental value of a hereditament that is used for NNDR purposes.

### **Revenue Expenditure Funded by Capital Under Statute (REFCUS)**

Expenditure of a capital nature but for which there is no tangible asset held by the Council, e.g. renovation grants

### **Related Parties**

Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party; or
- The parties are subject to common control from the same source; or
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Examples of related parties to an authority include central government, local authorities and other bodies precepting or levying demands on the Council Tax, its members, its Chief Officers and its pension fund.

For individuals identified as related parties, it is also presumed that members of the close family, or the same household, or any partnerships, companies in which the individual or a member of their close family, or the same household has a controlling interest, are deemed to be related parties.

### **Related Party Transactions**

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party.

### **Reserves**

Amounts set aside in the accounts for the purpose of meeting general, future expenditure. Reserves may also be used to smooth the cost of certain activities over a number of years. A distinction is drawn between reserves and provisions (see above), which are set up to meet known liabilities.

# Glossary and Terms of Abbreviation



## R

### **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

### **Return on Plan Assets (Pensions)**

Changes during the period in the net benefit liability that arises from the passage of time excluding amounts included in Net Interest on the Net Defined Benefit Liability.

### **Revenue Expenditure**

Spending on day-to-day items including employees' pay, premises and transport costs and supplies and services.

### **Revenue Reversion**

Revenue reversion may occur if a capital project is discontinued before the asset is constructed – any previously incurred costs, having produced no asset, cannot be capitalised, and need to be charged to revenue i.e. reverted to revenue.

### **Revenue Support Grant**

A general grant paid by the Government to Council's contributing towards the costs of their services.

## S

### **Settlements (Pension schemes)**

A gain or loss on settlement arises when an authority enters into a transaction that eliminates all further obligation for the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer.

### **Specific Grants**

The term used to describe all government grants, including supplementary and special grants, to local authorities other than Revenue Support Grant and capital grants.

### **Supported Borrowing**

The amount of Council borrowing towards which the Government provides financial support through the annual Revenue Support Grant.

## T

### **Temporary Borrowing**

Money borrowed for a period of less than one year.

### **Total Cost**

The actual cost of services reflecting all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

## U

### **Unsupported (or Prudential) Borrowing**

Any borrowing the Council undertakes that is above and beyond the level of Supported Borrowing which the Government helps to fund and which therefore the Council has to fund completely from its own resources.

# Glossary and Terms of Abbreviation



## Abbreviations used in the Statement of Accounts

B&NES	Bath & North East Somerset Council
BCF	Better Care Fund
CCG	Clinical Commissioning Group
CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department for Communities and Local Government
DFE	Department for Education
DFT	Department for Transport
DEFRA	Department for Environment, Food & Rural Affairs
IFRS	International Financial Reporting Standard
LAAP	CIPFA's Local Authority Accounting Panel
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LEP	Local Enterprise Partnership
LSTF	Local Sustainable Transport Fund
PWLB	Public Works Loans Board
SERCOP	Service Expenditure Reporting Code of Practice

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